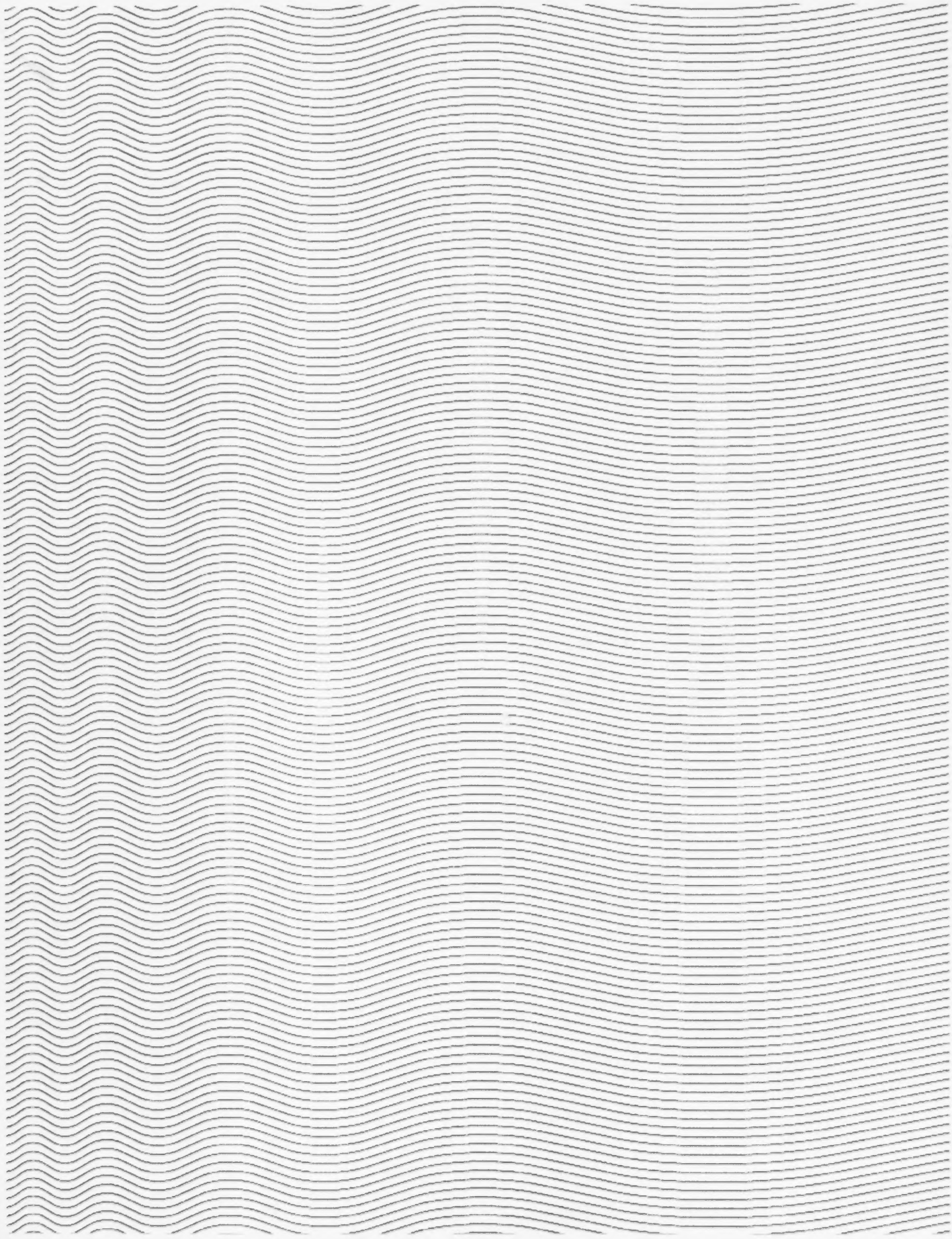
YUKON ENERGY CORPORATION

2007 ANNUAL REPORT



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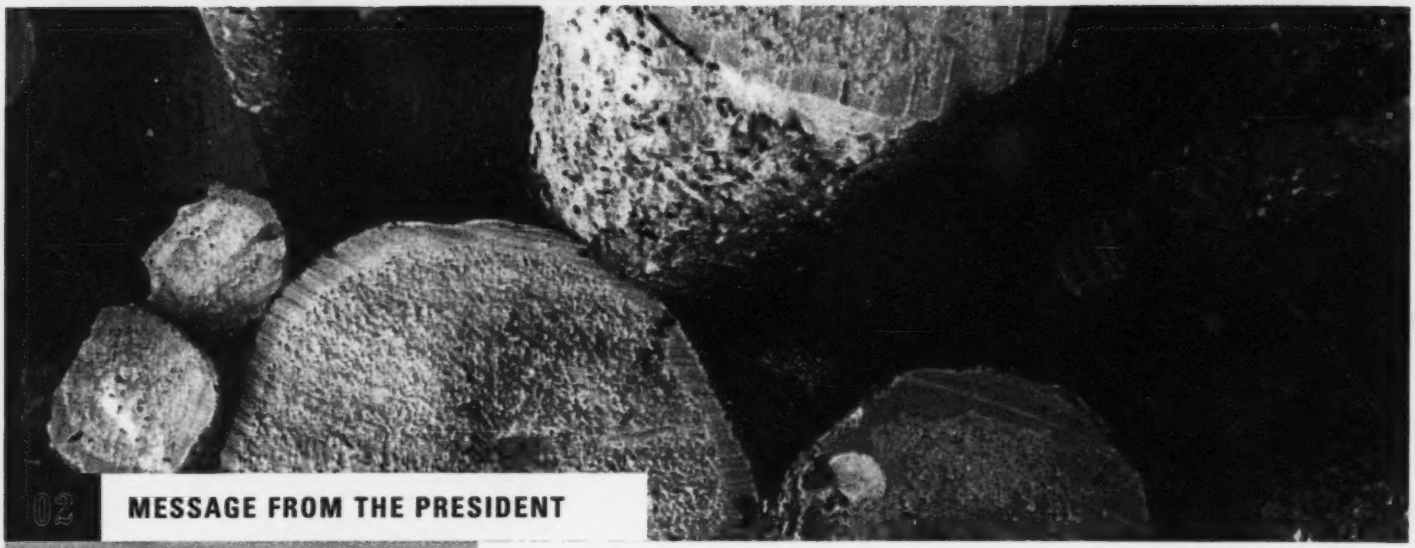
Yukon Energy is committed to providing our customers with exceptional value in rates, service, reliability and public safety. This annual report is a tribute to all our customers and our highly professional and dedicated staff.



MESSAGE FROM THE PRESIDENT

Clearing the route for the Carmacks-Stewart transmission line. This project will provide long-term benefits to Yukon ratepayers. It gives us a customer for our surplus hydro and it allows Pelly Crossing to switch to clean hydro for its electricity needs. Phase Two of the line, from Pelly Crossing to Stewart Crossing, will connect our two major power transmission systems, giving us long-term benefits including greater flexibility and system reliability.

Photo: Derek Crowe

Yukon Energy's primary focus this year was to proceed with some of the major initiatives laid out in our 20-year resource plan. The plan addresses our major electrical generation and transmission needs from 2006 until 2025 and was approved last year by the Yukon Utilities Board (YUB).

The largest project in the plan, both in terms of cost and resources, is the building of a new 138 kV transmission line from Carmacks to Stewart Crossing in the central Yukon, with a spur line to the recently opened Minto mine. We began Phase One of the line, from Carmacks to Pelly Crossing, this year. A Power Purchase Agreement was finalized with the Minto mine and approved by the YUB. Extensive planning and permitting was completed and we reached a project agreement with the three First Nations involved in the project. The agreement lays out, among other things, the benefits that the Northern Tutchone First Nations will receive as a result of the construction of the transmission line.

Late in 2007 we began the centerline surveying and clearing. We expect the surveying and clearing work to be completed early in 2008, with line construction to begin in the spring. The line is to be operational by late fall of 2008.

This project will provide long-term benefits to Yukon ratepayers. It gives us a customer for our surplus hydro and it allows Pelly Crossing to switch to clean hydro for its electricity needs. Phase Two of the line, from Pelly Crossing to Stewart Crossing, will connect our two major power transmission systems, giving us long-term benefits including greater flexibility and system reliability.

Another priority for Yukon Energy in 2007 was to find new capacity on our system and new sources of generation. We proceeded with rebuilding one of our Mirrlees diesel generators in Faro. It will be re-commissioned in the spring of 2008. Three other diesel units, located in Whitehorse, will be rebuilt over the next few years. The work is part of a larger overall plan to improve and upgrade the Whitehorse diesel plant.

Yukon Energy spent time in 2007 looking for new hydro generation options in the Mayo/Dawson area, the Southern Lakes and the Kusawa region. Sites were examined at Mayo Lake and around Wareham Lake, in the historic North Fork area, at Drury Creek, and at Moon, Tutchi, Racine, Fantail and Primrose Lakes. More work will be done before decisions are made on any of these sites.

Ironically, as we searched for new hydro options, waters were quickly rising around us. By late summer the Southern Lakes were experiencing record high water levels and home owners were scrambling to protect their properties. We worked with residents of Marsh Lake, Tagish and Carcross to regularly share all information we had regarding water levels, so they could make the best informed decisions about protecting their properties. When sandbagging was needed to hold back the flood waters, some of our staff were there to help. Our own facilities were not immune to the high water and we were required to do sandbagging near our Marsh Lake control structure. Thankfully there was no major damage to our property or assets.

Yukon Energy also began planning for a third hydro turbine at our Aishihik facility. The Yukon government has committed $5 million towards the cost of the new unit, which we expect to install in 2010. This third turbine at Aishihik will provide seven megawatts of power and will help reduce the need for costly diesel generation in the future.

In keeping with our commitment of preventive maintenance, Yukon Energy refurbished our number four hydro unit this year. The unit, known as the Fourth Wheel, is one of our prime, year round hydro generators and its overhaul was important for continued reliable power to Yukoners. We also devoted significant time and money to upgrading/replacing some of our substations, transmission lines and transformers.

Yukon Energy is committed to providing our employees with a safe, healthy and informed workplace. In 2007 we implemented a safety strategy that involved educating our staff through the use of guest speakers, newsletters and posters. We moved forward on a number of initiatives for improving internal communications, building teamwork and engaging staff. These initiatives included revamping our staff meetings and enhancing our program for recognizing employee milestones.

Recruitment, retention, staff training and development remained priorities for Yukon Energy in 2007. Work continued on documenting safe work practices and operational procedures so that when our employees retire (a large percentage of our workers are eligible for retirement within the next 10 years), their accumulated knowledge will not leave with them.

While our primary responsibility is to provide safe, reliable and cost-effective electricity to Yukoners, we have a strong connection to the communities in which we live and work. Yukon Energy offers financial assistance by way of cash donations to a wide variety of non-profit groups based in the Yukon. In 2007 Yukon Energy was a Gold level sponsor for the Canada Winter Games held in Whitehorse. We provided an additional $75,000 to non-profit groups involved in sports and recreation, culture and the arts, health and social services, and education. Yukon Energy's Corporate Contributions Program is a significant source of assistance for many Yukon groups and is clearly improving the quality of community life.

Also this year, Yukon Energy expanded our scholarship program by offering financial assistance for pre-apprenticeship as well as post-secondary programs. To our knowledge, we are the first company in the Yukon to offer scholarships for students entering pre-apprenticeship or entry level trades programs. Scholarships were given to ten deserving post-secondary students in 2007 and we completed the third full year of an apprenticeship and training benefits funding agreement with the Nacho Nyak Dun and Tr'ondëk Hwëch'in First Nations as part of an agreement made during the construction of the Mayo-Dawson transmission line.

I would like to thank our customers for their business and continued support. Thank you as well to the dedicated staff at Yukon Energy. There was little down time for our employees this year and they are to be congratulated for their extraordinary work and professionalism.

David Morrison
President and CEO

VISION, MISSION, VALUES

Established in 1987, Yukon Energy is a publicly-owned electrical utility that operates as a business, at arms length from the Yukon government. We are the main generator and transmitter of electrical energy in the Yukon and we work with our parent company Yukon Development Corporation to provide Yukoners with a sufficient supply of safe, reliable electricity and related energy services.

There are almost 15,000 electricity consumers in the territory. Yukon Energy directly serves about 1,800 of these customers, most of whom live in and around Dawson City, Mayo and Faro. Indirectly we provide power to many other Yukon communities (including Whitehorse, Carcross, Carmacks, Haines Junction, Ross River and Teslin) through distribution to the Yukon Electrical Company Limited. Yukon Electric buys wholesale power from Yukon Energy and sells it to retail customers in the territory.

Yukon Energy has the capacity to generate 112 megawatts of power. Seventy five megawatts of that are provided by our hydro facilities in Whitehorse, Mayo and Aishihik Lake (40 megawatts at Whitehorse, 30 megawatts at Aishihik and five megawatts at Mayo), 36 megawatts by diesel generators (which we currently only use as back-up) and 0.8 megawatts by two wind turbines located on Haeckel Hill near Whitehorse.

Yukon Energy is incorporated under and regulated by the *Business Corporations Act*, the *Public Utilities Act* and the *Yukon Waters Act*.

Our headquarters are located near the Whitehorse Rapids hydro plant in Whitehorse, with community offices in Mayo, Faro and Dawson City.

Vision

We are recognized as one of the best managed utilities in Canada, meeting the needs of our customers with a sustainable, reliable, cost-effective supply of electricity through:

- A passion for safety and environmental stewardship in all our activities;
- Being profitable and financially strong, capable of investing in the future, by expanding and upgrading our generation and transmission infrastructure;
- A well managed, dedicated and highly qualified work force;
- Being operationally and administratively efficient; and
- Maintaining good working relationships with key stakeholders, including government and First Nations.

Mission

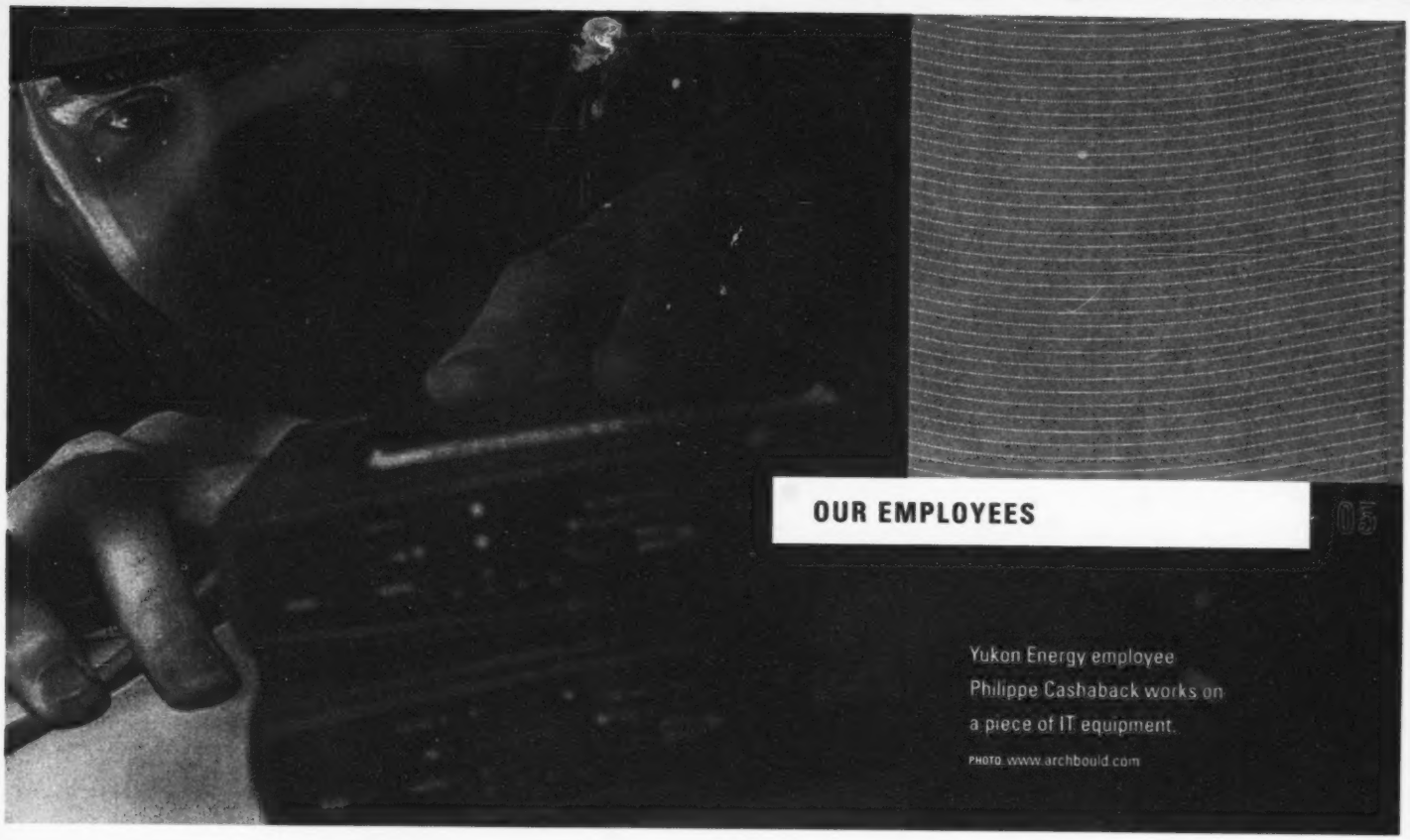
Strengthen and grow our core businesses of generation, transmission and distribution in the following ways:

- Develop and implement an effective corporate governance process
- Secure approval and financing for near-term resource plan projects
- Improve organizational capabilities – planning and project management
- Streamline work processes and improve communications with stakeholders
- Strengthen our human resources through an emphasis on employee development, improving teamwork and implementing strategic workforce initiatives

Values

Our actions and activities are guided by our core values:

- Commitment
- Integrity
- Effective Service
- Safety
- Learning, Growth and Development
- Respect
- Teamwork
- Accountability



OUR EMPLOYEES

Yukon Energy employee Philippe Cashaback works on a piece of IT equipment.

PHOTO: www.archbould.com

Yukon Energy employs approximately 80 highly skilled and dedicated people in Whitehorse, Faro, Mayo and Dawson City.

Once again this year, we involved staff in a strategic planning exercise to identify our key corporate goals and objectives for the next few years and to pinpoint strategies aimed at meeting those goals and objectives. The five major areas of focus were generation and transmission, our staff, operational efficiency, business process improvement and governance.

One of our goals for 2007 was to improve internal communications, build stronger work teams and engage our employees. We revamped our staff meetings to make them more accessible and we enhanced our program for recognizing employee milestones. We moved ahead with work on an intranet site which, when launched in 2008, will offer more internal communications opportunities. It will also provide basic collaboration and document management tools where files can be shared centrally and kept secure by implementing various controls.

Recruitment, retention, staff training and development continue to be priorities for Yukon Energy. We hired a documentation specialist this year to record safe work practices and operational procedures so that when our employees retire (about 40 percent of our workers are eligible for retirement within the next few years), their accumulated knowledge will not leave with them.

Apprenticeship programs are an important part of our workforce strategy. This year we created and filled three apprentice powerline technician jobs. Along with attracting apprentices, a recruitment DVD produced last year has proved to be a great help in encouraging skilled professionals to consider Yukon Energy as a potential employer. A number of new staff members have told us that it was the DVD that prompted them to apply for a position with us.

2007 saw a number of changes to our staff. Several new positions were created at Yukon Energy to reflect the increase in activity with regards to major capital projects as well as the establishment of our apprenticeship program. Seven employees left us and 14 new staff joined our company. At the board of director's level, our Chair Willard Phelps and board members Paul Hunter and Barb Joe were all re-appointed for another three year term.

It is important to Yukon Energy that we celebrate the achievements of our employees. We would like to congratulate our nine employees who received Long Service Awards this year.

20 YEARS

Steve Blysak, Hector Campbell, Guy Morgan and Les Rowland

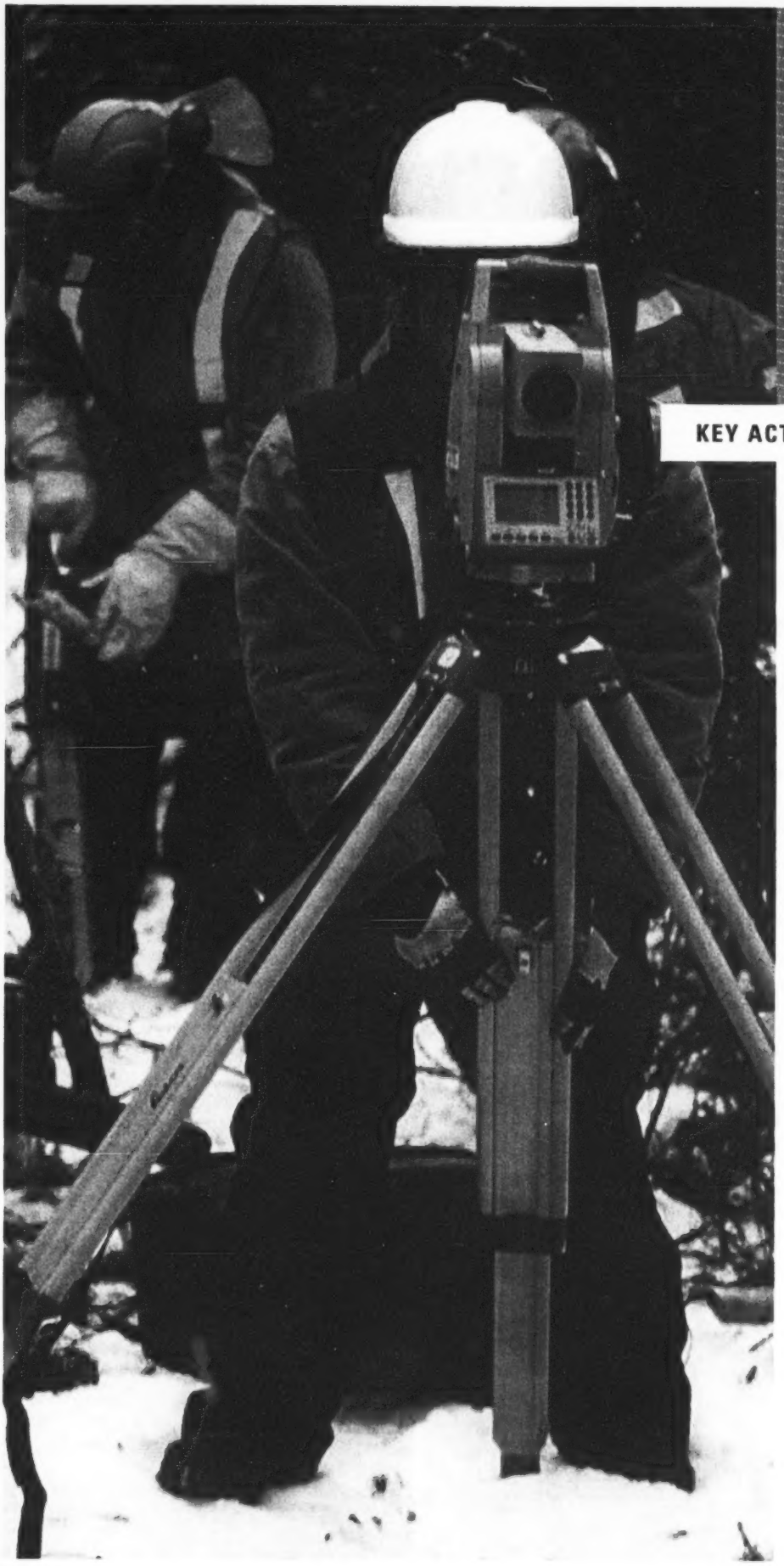
5 YEARS

Barb Bowen, Darryel Collins, David Johnson, Alex Love and Darcie Schroeder

SUMMARY OF UTILITY OPERATIONS

	2007	2006	2005	2004	2003	2002
Generating Capacity (in MW)						
Hydro	75	75	75	75	75	75
Diesel	36	36	36	36	40	40
Wind	1	1	1	1	1	1
Total	112	112	112	112	116	116
Peak Demand (in MW)						
WAF System	59	61	56	57	51	47
Mayo	5	5	4	4	5	3
Dawson	0	0	0	0	3	3
Total	64	66	60	61	59	53
Generation (in GWh)						
Whitehorse Rapids	206	219	202	206	208	69
Aishihik	98	81	81	71	61	86
Mayo	27	27	25	24	13	7
Wind	0	1	-	0	1	1
WAF Diesel	0	1	-	0	0	1
Other Diesel	1	-	1	1	11	15
	332	329	309	302	294	79
Electric Sales (in $000)						
Residential	1,509	1,456	1,397	1,395	1,370	1,359
General Service	2,731	2,645	2,838	2,216	2,103	2,094
Industrial	-	-	-	20	36	74
Wholesale	22,459	22,127	20,925	20,773	20,232	9,929
Secondary Sales	1,000	917	767	369	315	180
Other	377	383	371	131	141	151
	28,076	27,528	26,298	24,904	24,199	23,786
Electric Sales (MWh)						
Residential	10,908	10,665	10,169	10,199	10,001	9,662
General Service	17,507	17,037	18,438	14,016	13,375	12,829
Industrial	-	-	-	247	452	884
Wholesale	254,914	251,861	237,419	235,982	229,971	220,927
Secondary Sales	24,225	22,185	18,933	16,517	13,621	8,397
	307,554	301,748	284,958	276,961	267,420	252,698
Cents Per kWh						
Residential	13.84	13.66	13.74	13.68	13.70	14.07
General Service	15.60	15.52	15.39	15.81	15.73	16.32
Industrial	-	-	-	8.04	8.05	8.39
Wholesale	8.81	8.79	8.81	8.80	8.80	9.02
Secondary Sales	4.13	4.13	4.05	2.23	2.31	2.14

KEY ACTIVITIES



Electricity Rates/Subsidy

Yukon Energy was once again able to avoid increasing our firm rates in 2007. This is the 11th consecutive year that firm rates have remained stable. We do anticipate asking the Yukon Utilities Board to review our rates in the fall of 2008. That is when the Minto mine will become a major customer and we expect this will allow us to request a rate decrease for our other customers.

The Yukon government's Rate Stabilization Fund (RSF) was reduced by 50 percent at the end of June of this year. The fund is a government subsidy provided to non-government residential, commercial and municipal customers. It was implemented in 1998 after the shutdown of the Faro mine to protect customers from significant bill increases that would have resulted from that shutdown.

The cost of the Rate Stabilization Fund in 2007 was more than $3.5 million.

Doing survey work on the Carmacks-Stewart transmission line project.

PHOTO: www.archbould.com

Twenty Year Resource Plan

The Yukon Utilities Board (YUB) is the quasi-legal body that regulates utilities in the territory. Last year, Yukon Energy filed a 20 year resource plan with the YUB. The plan addresses our major electrical generation and transmission needs from 2006 to 2025. Early this year the Utilities Board gave its general support for the plan.

Carmacks-Stewart Transmission Line

The Carmacks to Stewart Crossing Transmission Line is the largest near-term project in our resource plan. Yukon Energy is building a new 138 kV transmission line from Carmacks to Stewart Crossing in the Central Yukon (approximately 172 kilometres long), with a spur line to the recently opened Minto mine. Phase One of the project, from Carmacks to Pelly Crossing, is expected to cost about $27.8 million, with the Minto spur line costing approximately $8.8 million.

We began Phase One of the line this year after finalizing a Power Purchase Agreement with the Minto mine and after an extensive environmental screening by the Yukon Environmental and Socio-Economic Assessment Board and three public hearings by the Yukon Utilities Board.

Part of our work towards getting the necessary approvals for the line involved meaningful and on-going consultations with the Northern Tutchone First Nations, project area residents, Renewable Resource Council members, government departments and other members of the public. We worked closely with them to select the route for the proposed transmission line. With their input, the route design was refined to avoid – wherever possible – wetlands, traplines and associated camps/cabins. Routing was also designed to minimize the effect on valued viewscapes and to avoid protected areas, areas of critical habitat for moose and caribou, and areas with potential heritage resources. Yukon Energy had an inventory done of rare plants that occurred along the transmission line's proposed route. The location of the plants was marked and measures were taken to ensure they were not disturbed or removed during line construction.

Yukon Energy also reached a project agreement with the Northern Tutchone First Nations, which addressed such issues as land use and socio-economic benefits for their members. The First Nations partnered with other companies to do the line clearing and construction, which began late in 2007. Clearing was done principally by mechanical methods, although hand clearing was used in areas with sensitive terrain or other important features, such as near rivers, wetlands, and areas of high heritage potential. Yukon Energy entered into a timber salvage agreement with the Yukon government and Northern Tutchone First Nations that allowed for more than 5,600 cubic metres of timber to be salvaged using environmental best practices. The salvage is being used by the Yukon and First Nation governments for lumber or firewood.

We expect the surveying and clearing work to be completed early in 2008, with line construction to begin in the spring. The line is to be operational by late fall of 2008.

This transmission project is being tightly managed with proper financial controls, checks and balances in place. It will permit us to supply the Minto mine with surplus hydro power, reducing greenhouse gas emissions by about 29,000 tonnes per year by displacing the Minto mine's on-site diesel generation. It will also allow the community of Pelly Crossing to switch from diesel to clean hydro for their electricity, reducing greenhouse gas emissions by a further 1,400 tonnes. Phase Two of the line, from Pelly Crossing to Stewart Crossing, will connect our two major power transmission systems, giving us long-term benefits including greater flexibility and system reliability.

Already the transmission line project is resulting in substantial economic benefits for the Yukon. Challenger Geomatics, which was awarded the centerline surveying contract, hired more than 20 Yukoners this year to do line cutting, flag clearing limits, catering and to provide other services. Spin-off benefits include revenue for hotels, restaurants, grocery stores and gas bars. Pelly Construction of Whitehorse was granted the clearing contract. It estimates about two dozen Yukoners have been hired to work on the project and says $2.5 million of its contract will be spent in the territory on wages, food, fuel and equipment. The construction phase will require an additional 40 to 50 employees, up to forty percent of who are expected to be Yukoners.

Yukon Energy employee Darrell Johnson works to rebuild a diesel generator at our Faro plant.

Photo: Derek Cryer

Diesel Upgrades
A second major initiative for us this year was the re-building of one of our oldest back-up diesel generators. We plan to rebuild four of our Mirrlees diesel units over the next few years at a cost of about $1.5 million per unit. This work is only part of a larger overall plan to improve and upgrade our Whitehorse and Faro diesel plants. Related work this year included replacing the Mirrlees cooling and auxiliary systems and doing electrical upgrades.

Aishihik Third Turbine
Yukon Energy began planning this year for a third hydro turbine at our Aishihik facility. The turbine is another of the projects identified in our 20-year resource plan. The seven megawatt hydro generator will be added to the existing Aishihik hydro plant (which has two 15 megawatt hydro turbines) at a cost of about $8 million dollars. The Yukon and federal governments have committed to provide $5 million of that amount. The hydro generator will displace diesel that might be needed during peak times of the day. The project will save Yukon Energy one million dollars or more per year in diesel costs and will reduce greenhouse gas emissions by an estimated 3,800 tonnes annually. The third turbine will also allow us to use the water more efficiently; we will not be using any more water overall than we do now nor will we be drawing the lake levels down any further than we do now.

Whitehorse Hydro Improvements
Each year for the past several years, one of our hydro units has received a major overhaul. In 2007 we refurbished the largest hydro generator in our fleet, with the capability of producing 20 megawatts of power. The Whitehorse 'Fourth Wheel' as it is called is one of our prime, year round hydro generators and its overhaul was important for continued reliable power to Yukoners.

We also installed a new digital governor for one of our smaller Whitehorse hydro generators this year.

Assets outside of Whitehorse received attention too. We devoted significant time and money in 2007 to upgrading/replacing of some of our substations, transmission lines and transformers.

New Hydro
With an ever increasing demand for electricity in the Yukon, it is urgent that Yukon Energy find new sources of generation. The company devoted substantial time in 2007 looking for new hydro generation options in the Mayo/Dawson area, the Southern Lakes and the Kusawa region. We looked at sites at Mayo Lake and around Wareham Lake, in the historic North Fork area, at Drury Creek, and at Moon, Tutchi, Racine, Fantail and Primrose Lakes. More work will be done before decisions are made on any of these sites. In 2008 we plan to take at least one potential hydro generation project to the feasibility stage.

Record High Water
It was a year of record high water levels in the Southern Lakes system. We kept in regular contact with the residents of Marsh Lake, Tagish and Carcross to share all information we had regarding water levels, helping them make the best informed decisions about protecting their properties. When sandbagging was needed, some of our staff volunteered their time to help out.

Yukon Energy was forced to do our own sandbagging when rising waters threatened to

cut off access to our Marsh Lake control structure. The fast moving water resulted in some damage to the boat lock at the Marsh Lake structure. In additional, the strong current in the Yukon River uprooted many trees and we were kept busy removing debris from the vicinity of our hydro equipment.

Southern Lakes Hydrology Study
Before Yukon Energy can seriously consider future hydro possibilities on the Southern Lakes, we must have a way of analyzing what effect a hydro project on one part of the Southern Lakes would have on the rest of our system. In 2007 we hired a consulting firm to produce a model for us, so that we can answer such questions. We expect the results in early 2008.

At the same time, we asked the firm to find out if lowering the spring water levels in Marsh Lake would lower the peak water levels in the lake later in the summer. This was an important question for us to ask, in light of this summer's flooding on Marsh and Tagish Lakes. Preliminary information shows that lowering spring water levels does not help to reduce peak summer levels. Once we have the final report, expected early in 2008, we will share the information with affected residents.

Mayo-Dawson Transmission Line
The Mayo-Dawson City transmission line, which has operated since the fall of 2003, involved building a 232 kilometre long transmission line and related infrastructure to connect the City of Dawson to the Mayo hydroelectric station. It has allowed Yukon Energy to supply Dawson with clean surplus hydro electricity (Dawson's diesel generators are now only used as emergency back-up) and has reduced greenhouse gas emissions by 10,000 tonnes a year.

For the third full year, Yukon Energy fulfilled its training agreements with the First Nation of Nacho Nyak Dun and the Tr'ondëk Hwëch'in First Nation, as part of the Mayo to Dawson Transmission Line Benefits Agreement. Through this agreement, we provide each of the two First Nations up to $15,000 a year for apprenticeship and training opportunities. The agreement is for 20 years with an option to renew for a further five years. We believe this is going a long way in helping the Tr'ondëk Hwëch'in and Nacho Nyak Dun achieve their training needs and is assisting members of the two First Nations to find meaningful employment.

Secondary Sales
Currently, Yukon Energy has the ability to produce more hydro-generated electricity than it needs for its customers. To take advantage of the economic and environmental benefits of this surplus power, the Corporation developed a Secondary Sales Program.

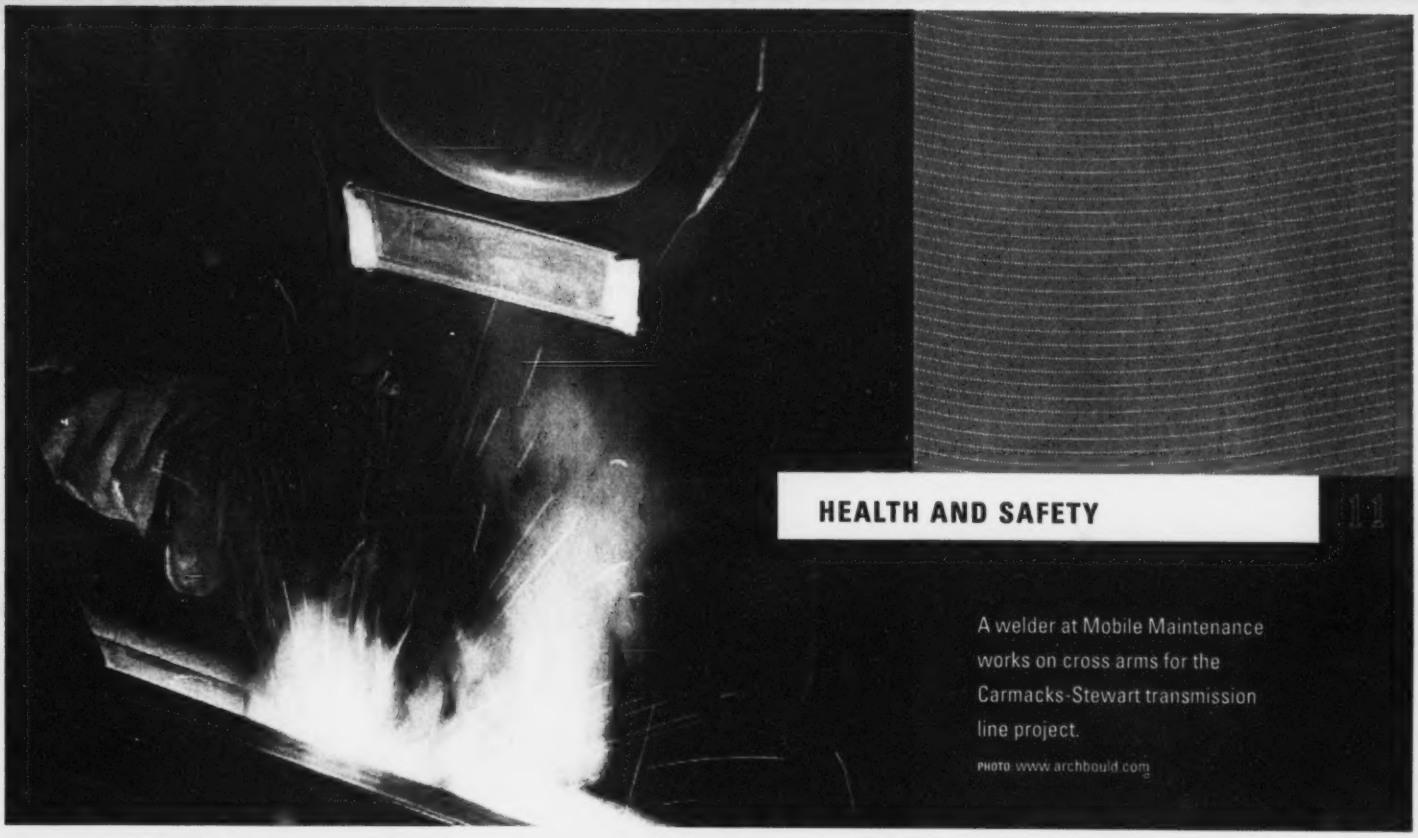
This program gives eligible Yukon businesses the option of using hydro power to heat their facilities instead of diesel fuel or propane, both of which are more expensive. However, there are some stipulations: the service is limited and is fully interruptible, and the business' existing heating system must be maintained and fully operational so that it can be re-activated on 24 hours notice. A second electrically fired heating system must be added in order to utilize the secondary sales electricity as a heating source. The business must also be located in an area that is served by hydro-generated power.

In 2007 secondary energy sales increased by 9.2 percent from 2006, accounting for 7.9 percent of Yukon Energy's total energy sales.

Improvements to Internal Processes
This year Yukon Energy continued our work towards replacing both our customer service billing system and our financial information system. Both systems have been in use for several years and are nearing the end of their lives. Both new systems will be in place within one to two years.

Another on-going project is the development of a comprehensive records management system. A Records Management Analyst will be hired early in 2008 to help develop policies and procedures and assist in organizing our corporate records and library.

Legal Issues
In 2007 we were successful in resolving, in our favour, a dispute with the federal government concerning the removal of some contaminated soil at our Whitehorse property. There was some progress made in our dispute with Chant Construction regarding the Mayo-Dawson transmission line. We remain hopeful that this issue will be resolved within the next few years.



HEALTH AND SAFETY

A welder at Mobile Maintenance works on cross arms for the Carmacks-Stewart transmission line project.

PHOTO: www.archbould.com

Public Safety Campaigns

Yukon Energy's Whitehorse Rapids hydro dam is located within city limits and in the heart of a popular recreational area, used by runners, hikers, kayakers and dog walkers. Because of this, public safety is a priority for us. In 2007, as in previous years, we mounted a media campaign warning people of the dangers of being near a hydro dam. A tragic drowning in the river this year a kilometer or so downstream from our facilities has prompted us to look at creating some safety material specifically for children in 2008.

Employee Safety

As always, safety is one of our key values. We believe it must be a part of every decision we make and every action we take. Three accidents in 2006 prompted us to step up our safety strategy by educating staff through training sessions, increased safety checks, newsletters, guest speakers and an internal advertising campaign. We are happy to report that our safety record has improved a great deal in 2007, with 7 lost days due to injury as opposed to 35 lost days in 2006. Our goal is to have zero lost days due to injury.

Yukon Energy believes that safety is everyone's responsibility, from senior management right down to front line workers. We stress the importance of managers and supervisors doing regular work observations and coaching staff in carrying out hazard assessments and reviews.

In 2008, we plan to be registered in the Certificate of Recognition (COR) program. COR is a safety and health certification program designed to help companies develop and maintain a safety and health management program for all staff. Under the program, a Certificate of Recognition is given to employers once COR training is finished, a safety program is developed and implemented, and an external safety audit is conducted.

Passport to Safety

2007 was the third year that Yukon Energy has been a part of a national program aimed at eliminating workplace injuries and deaths. The Passport to Safety Program supports and encourages education and workplace-specific safety training for all employees. It offers an on-line test to help make people aware of their rights and responsibilities regarding health and safety, and therefore better prepares them to keep safe while at work.

Yukon Energy is promoting this program during the hiring process and completion of the on-line test is an asset to people applying for a job at our company.

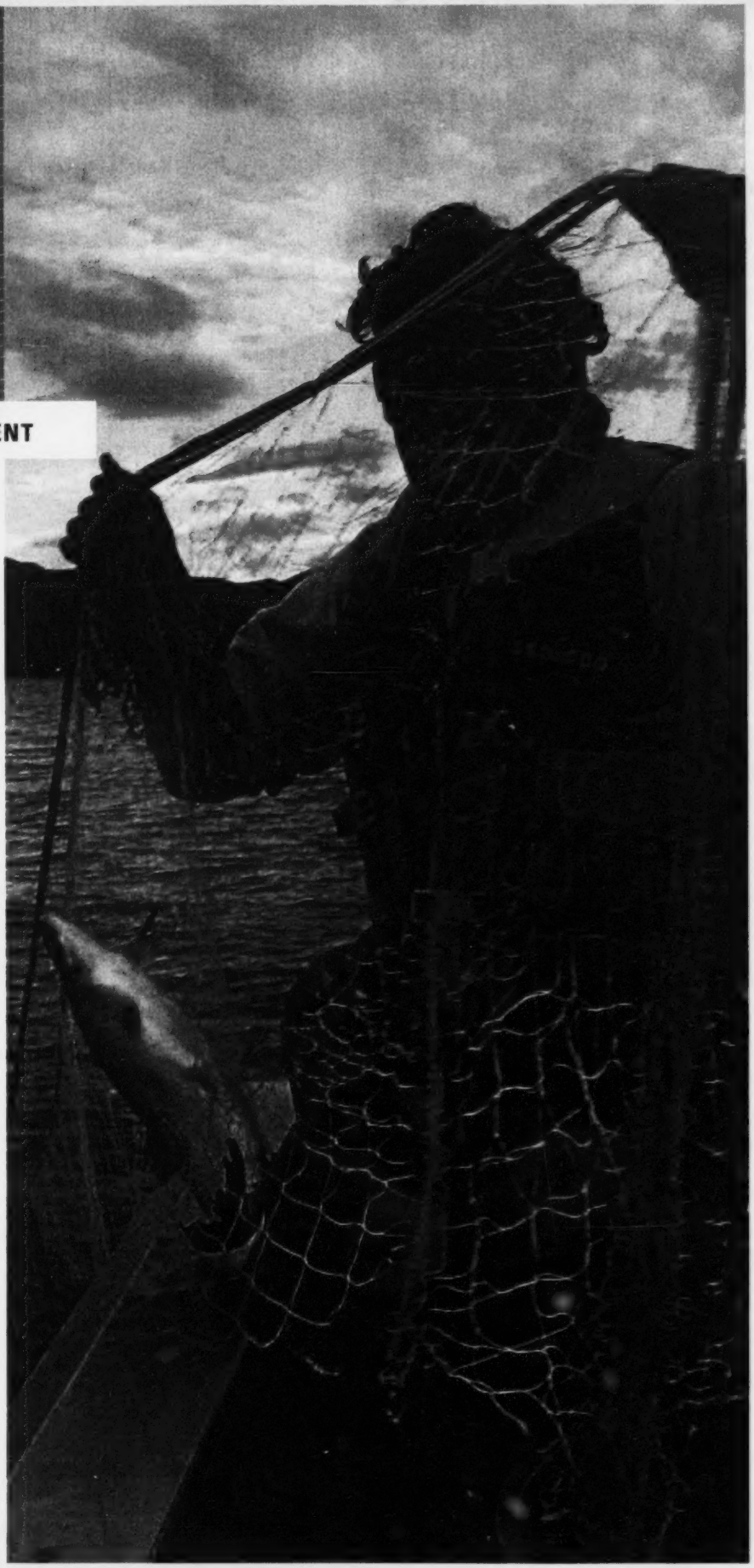
Greenhouse Gas Emission Reductions

The Yukon continues to benefit environmentally from the construction of the Mayo-Dawson transmission line. Since its completion in 2003, it has supplied residents of Dawson with clean hydro electricity (Dawson's diesel generators are now only used as emergency back-up) and has reduced greenhouse gas emissions by 10,000 tonnes a year.

When the Carmacks-Stewart transmission line is built, it will allow the Minto mine to use hydro electricity instead of diesel (displacing approximately 29,000 tonnes of harmful emissions per year) and it will allow the community of Pelly Crossing to switch from diesel to hydro, resulting in a further reduction in greenhouse gas emissions of 1,400 tonnes annually.

Whitefish Study

Yukon Energy Corporation is involved in an extensive fish monitoring program on the Aishihik Lake area of the southwestern Yukon, near one of the company's hydro facilities. The monitoring program is being carried out in partnership with the Champagne and Aishihik First Nations, the Yukon government's Department of Environment and the Federal Department of Fisheries and Oceans.



A member of the Champagne and Aishihik First Nations helps Yukon Energy conduct a major Whitefish study.

PHOTO: EDI Consultants

Yukon Energy has been monitoring juvenile Lake Whitefish annually since the late 1990s, as a way of ensuring the health of the fish population and the overall health of Aishihik Lake. In 2007, a more extensive program was carried out. This initiative will help Yukon Energy determine if there is a correlation between the operation of the Aishihik Hydro Generating Station and the Lake Whitefish population. Depending on the results, operating conditions in Yukon Energy's Aishihik water use license could be made stricter, kept the same, or lessened. Initial findings indicate the hydro plant is not adversely affecting the fish population. Final results will be known in the spring of 2008.

The 2007 initiative involved netting more than 900 adult Lake Whitefish from two local lakes. Biologists took bone and stomach content samples and are studying the material to determine the age and maturity of the fish. Once samples were collected for research purposes, the fish were offered to the Champagne and Aishihik First Nations (CAFN) to be shared with their membership. Yukon Energy funded a cultural camp at the north end of Aishihik Lake, where elders and other members of the CAFN gathered to dry the fish and take part in other cultural activities.

Ducks Unlimited

2007 was the final year of a five-year initiative with Ducks Unlimited Canada. The purpose of the partnership was to work towards achieving sustainable energy development and energy self-sufficiency for the Yukon while sustaining the health of Yukon waters and associated wetlands and habitat. Yukon Energy and our parent Yukon Development Corporation each contributed $25,000 annually for research and monitoring, public education, environmental stewardship and industry liaison.

Whitehorse Rapids Fishway

The Whitehorse Fishway, built at the same time as the dam (1958) to help migrating salmon bypass the dam to reach their spawning grounds, had a reasonably successful season this year, although it was not a good year for the salmon. Only 427 Chinook passed through the fishladder, compared with 1,720 in 2006 and 2,632 in 2005.

Each year, Yukon Energy makes improvements to the facility. 2007 upgrades included more new interpretive panels and displays, landscaping, and new flooring for the visitor reception centre. Once again this year, First Nation elders were on hand twice a week in our interpretive tent to answer questions from the public. Our fish cam, that allows internet users to view the salmon in our fishladder on-line, remains a very popular feature with people from around the world.

The fishway is owned by Yukon Energy, operated by the Yukon Fish and Game Association and receives some financial support from the Yukon government's Department of Environment. It is one of the Yukon's most popular tourist attractions, typically seeing between 25,000 and 30,000 visitors each summer. In 2007 the visitor numbers were down slightly to about 22,000. However this trend was consistent with other tourism attractions in the territory. It's believed a strong Canadian dollar and the high cost of gasoline deterred some Americans from traveling north.

Whitehorse Rapids Fish Hatchery

The Whitehorse Rapids Fish Hatchery began operating in 1984 to counteract the numbers of migrating Chinook salmon fry being affected by our power plant. In 1996 the hatchery was expanded to accommodate the Yukon government's fresh water fisheries program. Freshwater fish such as arctic char, lake trout, rainbow trout and bull trout are raised to stock pothole lakes in the southern Yukon.

Under a funding agreement with the Yukon government's Department of Environment, Yukon Energy and the government jointly and equally share the operating and maintenance costs of the hatchery.

R & D Environmental administers, manages and operates the facility year round by way of a contract with Yukon Energy.

In 2007 the freshwater component of the hatchery reared kokanee salmon, bull trout and rainbow trout. More than 1,300 bull trout fry were released into Long Lake. In addition, close to 8,700 juvenile or adult fish were held at the hatchery for future stocking and/or for the brood stock program.

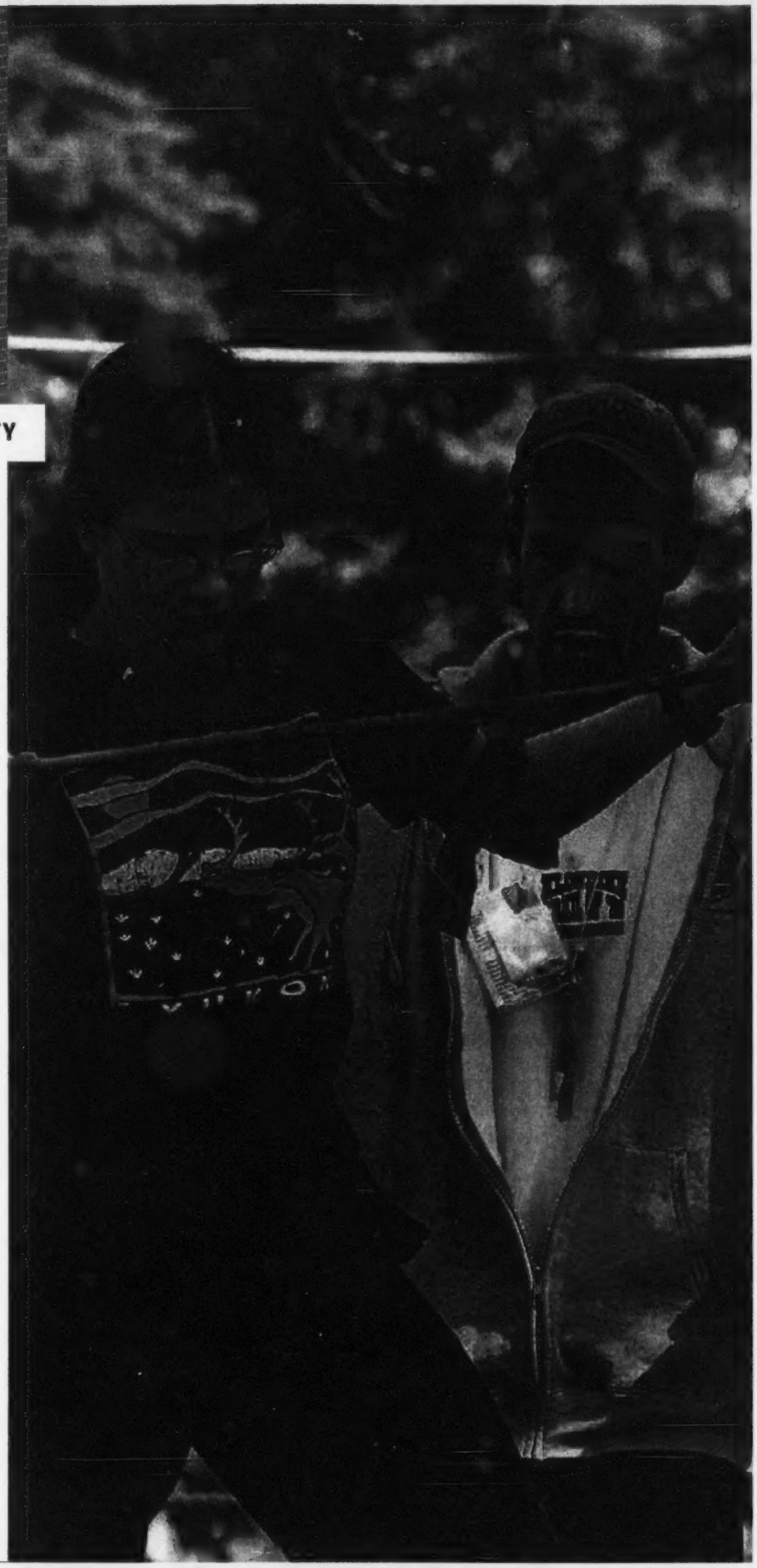
The chinook salmon component of the Whitehorse Rapids Fish Hatchery released more than 166,000 chinook fry into the upper drainage of the Yukon River above the Whitehorse dam.

SUPPORTING OUR COMMUNITY

Canada Winter Games
In 2007 Yukon Energy contributed $50,000 to the 2007 Canada Winter Games that took place in Whitehorse, plus we provided thunder sticks to visitors attending the various venues as a way of helping them get in the spirit of the games. It's estimated that 3,500 athletes, coaches and officials participated, with more than 4,500 volunteers supporting 22 sport and cultural events.

Computer Donations
Whenever possible, Yukon Energy donates surplus equipment to non-profit groups. This year we donated almost 60 computers, monitors, printers, photocopiers and fax machines to Yukon organizations. One of our computers found its way to Sierra Leone, where it is helping female victims of war as they learn literacy, keyboarding and office skills.

Financial Contributions to Non-Profit Groups
Yukon Energy continues our tradition of sponsoring the good work of non-profit organizations throughout the territory. Through our corporate contributions program, we donated more than $75,000 to a variety of community groups in 2007. The list covered everything from sports and recreation, the arts, education, and health and social services.



Yukon Energy employee David Johnson volunteering at a children's summer camp.

PHOTO: Derek Crowe

"The support of Yukon Energy has allowed our festival to grow into a major date on the Yukon arts calendar. Through the support of events such as the film festival, Yukon Energy helps expand the cultural/recreational opportunities available to residents of the North and ultimately contributes to the quality of life we enjoy."
—Dawson City International Short Film Festival

"We would like to thank you for your generous support of the 2007 Special Olympics Festival. With the help of local businesses like yours we were able to raise over $35,000 for Special Olympics Yukon. We could not have done this without your kind support."
—Special Olympics Yukon

"Thanks to Yukon Energy for supporting the best Celebration of Swans poster ever! The whole celebration was a great success and people will cherish the posters."
—Celebration of Swans organizers

"On behalf of the 2007 Run for Mom Organizing Committee, thank you for your support as a new platinum level sponsor for this year's event. The organizing committee was thrilled to learn that Yukon Energy upgraded to this level."
—Run for Mom

"We are very grateful for your generous donation made to support our participation in the Super Soccer Tournament in Yellowknife. It was a wonderful and fulfilling opportunity for the team to play some great soccer games. Without sponsors such as yourself this event would not have been possible.
—U18 Mayo Soccer Team

Scholarships

This year Yukon Energy expanded our scholarship program by offering financial assistance for pre-apprenticeship as well as post-secondary programs. To our knowledge, no other company in the Yukon offers scholarships to students entering pre-apprenticeship or entry level trades programs.

We also completed the third full year of an apprenticeship and training benefits funding agreement with the Nacho Nyak Dun and Tr'ondëk Hwëch'in First Nations, as part of an agreement made during the construction of the Mayo-Dawson transmission line.

In total, scholarships were given to ten deserving post-secondary students. We would like to congratulate this year's recipients:

Matthew Moffatt: Business Administration

Sheng Choi: Engineering

Boris Hoefs: Engineering

Brendan Zrum: Mechanical Engineering

Kaleb Dawe: Commerce/Business Administration

Ben Steinberg: Engineering

Avery Murray: Construction/Industrial Electrical

Martin Slama: Business Administration

Alexander Profeit: Science

Roxanne Anderson: Social Work/Criminal Justice

"I would like to extend my sincere gratitude for the scholarship award that I received in August 2007. The award made a large contribution toward my goal of becoming a journeyman electrician by allowing me to enroll in the Construction/Industrial Electrical Pre-Employment Program at Yukon College."
—Yukon Energy Scholarship recipient Avery Murray

"I wanted to give a BIG thank you for the generous scholarship you awarded me. It's becoming more and more of a blessing as the school year goes on. Thank you all!"
—Yukon Energy Scholarship recipient Boris Hoefs

Community Involvement

It is important to Yukon Energy that we participate actively in the communities we serve. For example, when high water threatened to flood homes at Marsh Lake this summer, a number of our staff helped with sandbagging. Other community events in which we were involved included the Young Women Exploring Trades Conference, which gave about 120 grade eight girls hands-on experience in a variety of trades, and the annual Bridge Building Competition.

Many staff members volunteer during their off hours for a wide variety of community organizations and events.

BOARD OF DIRECTORS

Chair Willard Phelps along with board members Paul Hunter and Barb Joe were all re-appointed to the board in 2007 for another three-year term.

Willard Phelps, Chair

Martin Allen

Paul Birckel

Greg Hakonson

Paul Hunter

Pat Irvin

Patrick James

Barb Joe

SENIOR MANAGEMENT

David Morrison
President and C.E.O.

Les Boisvert
Director, Health, Safety & Environment

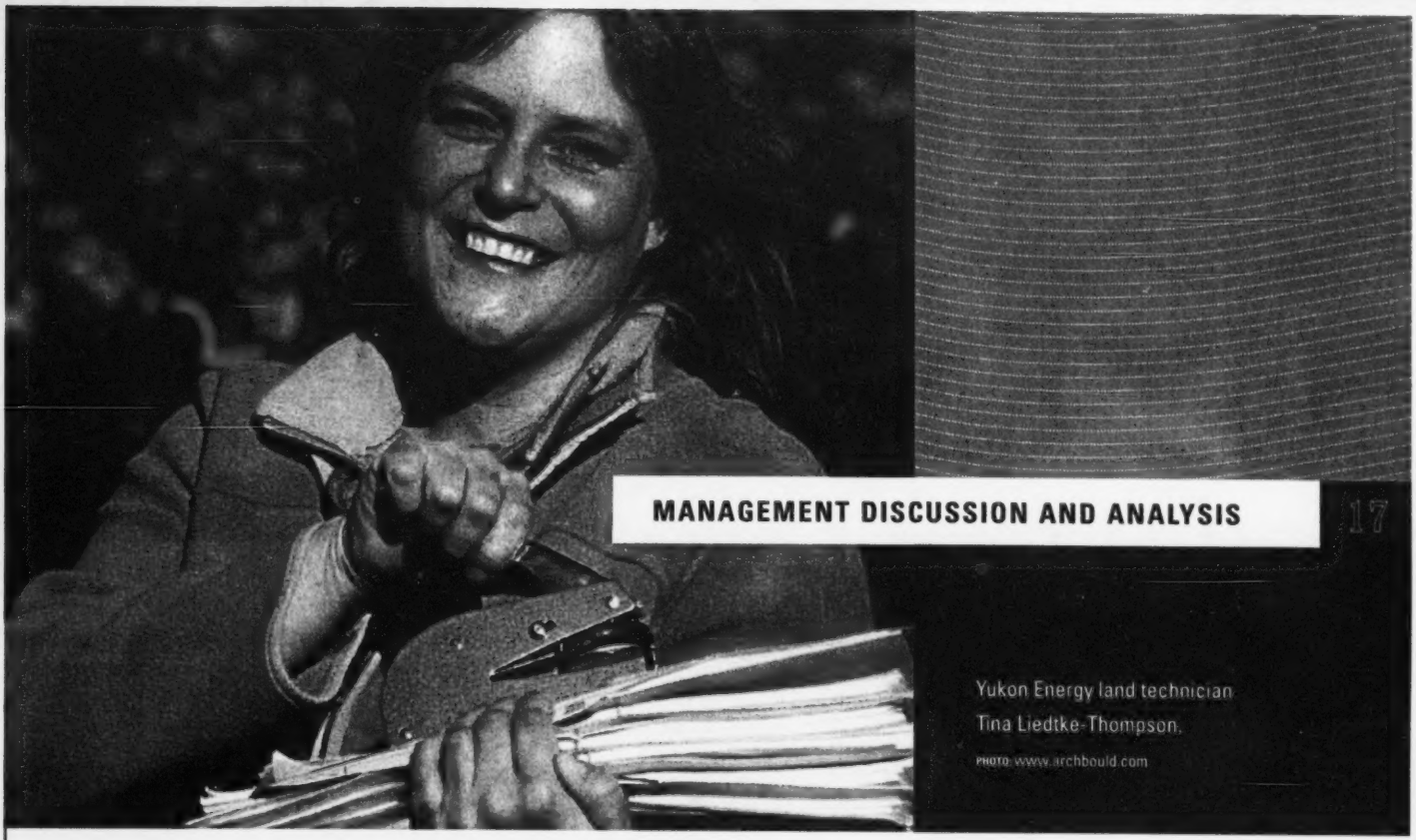
Hector Campbell
Director, Resource Planning & Regulatory Affairs

Linda Greer
Director, Human Resources & Information Management

Alex Love
Director, Technical Services

Ed Mollard
Chief Financial Officer

Dave Wray
Director, Operations



MANAGEMENT DISCUSSION AND ANALYSIS

Yukon Energy land technician Tina Liedtke-Thompson.

PHOTO: www.archbould.com

Yukon Energy Corporation is a crown-owned company incorporated under the Business Corporation Act. The company is solely owned by Yukon Development Corporation, a Yukon government crown corporation, and is the primary generator and transmitter of electrical energy in the Yukon. Yukon Energy's operations are subject to regulation by the Yukon Utilities Board.

Yukon Energy operates seven generation facilities that form two distinct grids in the Yukon. The grids are not connected to the North American electrical system.

Strategy

Our corporate vision is to be recognized as one of the best managed utilities in Canada, meeting the needs of our customers with sustainable, reliable, cost effective electrical supply, while maintaining a passion for safety and environmental stewardship in all our activities. An implication of this vision is a strong corporate financial position with capacity to invest in the future through expansion of our generation and transmission infrastructure.

Key Performance Drivers

System maintenance is critical to Yukon Energy. As an isolated system, our customers rely on us virtually 100 percent for continuity of service. For this reason, management monitors outage statistics closely to ensure we correct systemic problems as quickly as possible.

Another important indicator for Yukon Energy Corporation is cost control. As a publicly-owned utility, we have a fiduciary duty to our shareholder to manage our resources prudently. Management is constantly reviewing costs to date and budgets to ensure results are tracking as expected and corrective action is taken as needed.

Yukon Energy is run by a small group of about 80 dedicated highly trained employees. With such a small group, and the need for specialized skills at many levels, management of human resources is vital to the company's success. Focus on training and employee retention ensures we have the right people at the right time to accomplish our goals.

The electrical business is, by its nature, a hazardous operation. An uncompromising attitude towards safety is essential to ensuring the well-being of staff and others. All incidents are reviewed by a joint union-management committee and senior management and safety training is a priority budget item each year.

Capabilities

Yukon Energy continues to demonstrate a healthy financial position. The company has a prescribed 60:40 debt to equity structure that is maintained through a system of dividends and debt management with our parent Yukon Development Corporation. This structure ensures affordable electricity rates for our customers at the same time demonstrating a desirable structure for the markets.

In the short term, liquidity is sufficient to meet corporate commitments. These commitments include funding working capital to cover on-going expenses as well as maintaining our assets through our capital program. Corporate efforts continue towards key initiatives to provide safe, reliable power as outlined in our 20 year Resource Plan. Upgrades to aging infrastructure and investigations to meet future demands will put pressure on cash flows, however management is committed to finding innovative solutions that will allow us to meet our corporate objectives while protecting the integrity of the company's finances.

In terms of non-financial resources, the most significant challenge facing Yukon Energy continues to be the management of human

resources. Attracting and retaining the right mix of technical staff will be an ongoing issue for us at a time when the existing work force is aging and labour markets are extremely tight.

Operating Results

Overall sales volumes for 2007 were consistent with expectations, actual sales dollars being within one percent of budget and two percent higher than 2006. Strong secondary sales were a significant contributor to this positive outcome. For 2008, management expects non-industrial sales growth to again be in the two percent range. Of greater note for the company will be the connection of the Minto Explorations Ltd. high-grade copper mine to the grid in late 2008. This project represents the first major industrial customer brought onto the grid in 10 years and represents a material revenue stream to the utility and ultimately the rest of ratepayers in the Yukon.

Total operating expense also tracked on budget for the fiscal year 2007. In 2008, additional budget dollars have been allocated to maintenance of the key 138kV line from Whitehorse to Carmacks, in preparation for connection of the Minto mine. As well, 2008 will be a key year for cyclical power line brushing activities.

Capital spending totaled $7.3 million on a gross basis, which is 86 percent of planned activity. The Corporation was again constrained by vacancies in key staff positions. As well, the above does not include resources committed to the planning activities on the Stage One Carmacks to Stewart Crossing/Minto Spur transmission project (subject to specific Board of Directors monitoring). In 2008, key projects in capital spending will be the work necessary to complete the above transmission project, refurbishment of important back-up diesel assets and feasibility work on new generation supply options.

Risks

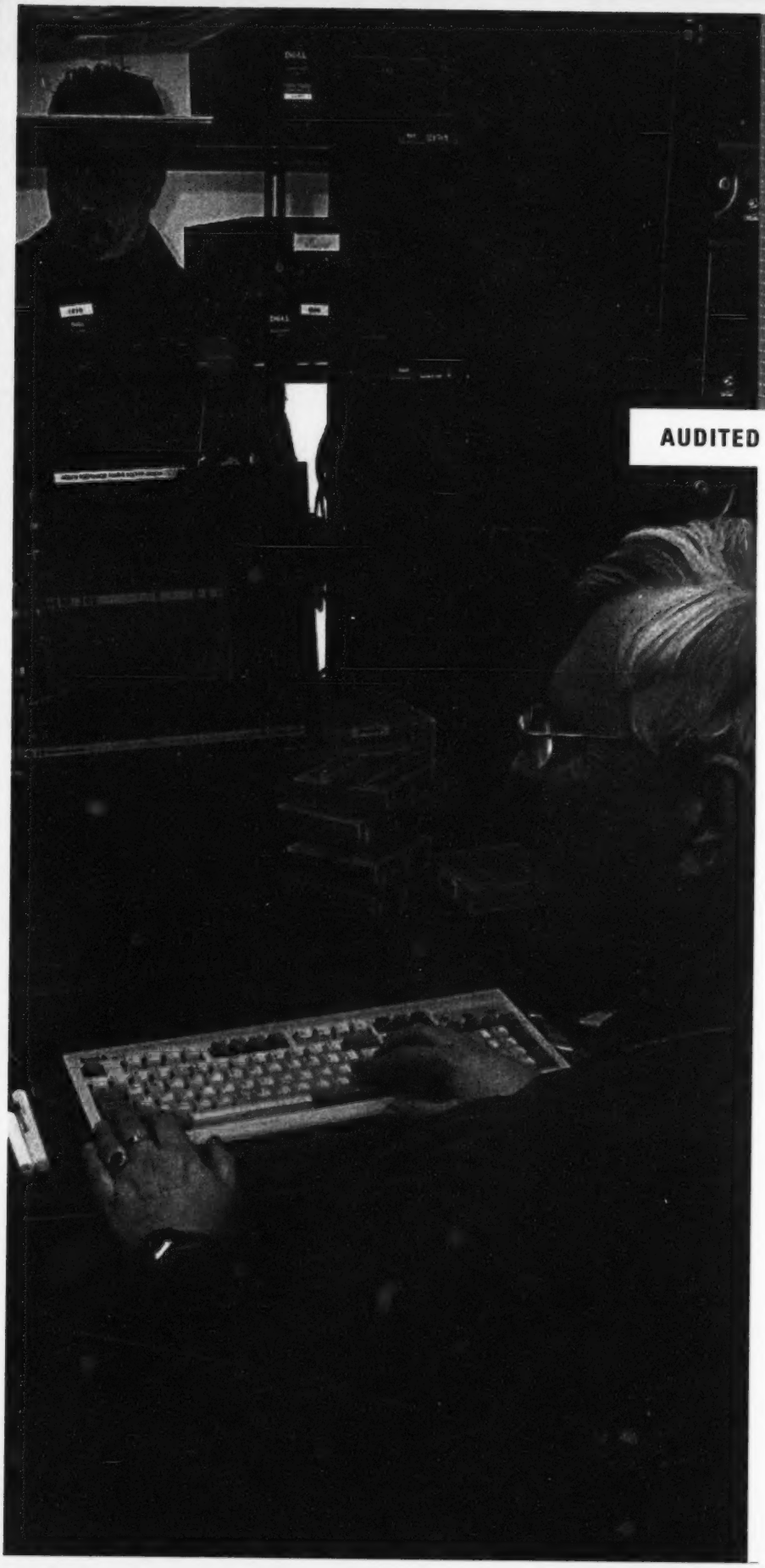
Yukon Energy Corporation faces a number of key risks:

Operational Risk – The risk that we will be unable to meet the needs of our customers when required. This is mitigated by ensuring sufficient resource allocations, both people and dollars are directed at asset maintenance and capital programs as well as analyzing growth patterns to ensure sufficient assets are available to meet demand.

People Risk – The risk that Yukon Energy will not have the right number and mix of technically qualified people to execute corporate plans. Initiatives such as strategic workforce planning, aggressive recruitment, apprenticeship training and competitive pay and benefits packages will moderate this risk.

Financial Risk – The risk that insufficient financial resources will be available to meet the needs of our capital and maintenance programs. Accurate annual cash flow forecasting and comprehensive debt planning with Yukon Energy's parent help to mitigate this risk.

Regulatory Risk – The risk that a regulator will rule against Yukon Energy's plans, thereby preventing the accomplishment of goals. By making plans that are sound and well-supported by industry practice and all stakeholders, this risk is alleviated.



AUDITED FINANCIAL STATEMENTS

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Yukon Energy IT employees Bob Mura (foreground) and George Burns (background).

PHOTO: www.archbould.com

AUDITOR'S REPORT

To the Board of Directors of Yukon Energy Corporation

I have audited the balance sheet of Yukon Energy Corporation as at December 31, 2007 and the statements of income, other comprehensive income and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Further, in my opinion, proper books of account have been kept by the Corporation and the financial statements are in agreement therewith and the transactions of the Corporation that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with the *Public Utilities Act* and regulations, *the Business Corporations Act* and regulations, and the articles and the bylaws of the Corporation.

Sheila Fraser

Sheila Fraser, FCA
Auditor General of Canada

Vancouver, Canada
April 11, 2008

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

Management's Responsibility for Financial Reporting

Management is responsible for the preparation of the financial statements and all other financial information relating to the Corporation contained in this annual report. The financial statements have been prepared in conformity with Canadian generally accepted accounting principles using methods appropriate for the industry in which the Corporation operates and necessarily include some amounts that are based on informed judgments and best estimates of management. The financial information contained elsewhere in the annual report is consistent with that in the financial statements.

Management has established internal accounting control systems to meet its responsibilities for reliable and accurate reporting. These systems include policies and procedures, the careful selection and training of qualified personnel and an organizational structure that provides for the appropriate delegation of authority and segregation of responsibilities.

The Board of Directors, through its Audit Committee, oversees management's responsibilities for financial reporting. The Audit Committee meets regularly with management and the independent auditor to discuss auditing and financial matters to assure that management is carrying out its responsibilities and to review the financial statements. The auditors have full and free access to the Audit Committee and management.

David Morrison
President and CEO

Ed Mollard
Chief Financial Officer

April 11, 2008

BALANCE SHEET (in thousands of dollars)

As at December 31,	2007	2006
Assets		
Current		
Cash	$ 6,237	$ 5,952
Accounts receivable (Notes 5 and 16)	3,726	4,226
Materials and supplies	2,352	2,039
Prepaid expenses	186	181
	12,501	12,398
Deferred uninsured losses (Note 6)	**463**	500
Diesel contingency fund (Notes 4 and 7)	**856**	821
Property, plant and equipment (Note 8)	**164,394**	157,992
Deferred charges (Note 9)	**9,128**	9,238
	$ 187,342	$ 180,949
Liabilities		
Current		
Accounts payable (Note 16)	4,119	3,531
Current portion of long-term debt (Notes 13 and 16)	3,416	3,253
Regulatory liabilities (Note 10)	1,191	1,483
	8,726	8,267
Long-term pension liability (Note 17)	**741**	560
Deferred revenue (Note 11)	**7,626**	7,896
Contributions in aid of construction (Note 12)	**16,495**	12,187
Regulatory provision for future removal and site restoration costs	**5,241**	5,083
Diesel contingency fund (Notes 4 and 7)	**856**	821
Long-term debt (Notes 13 and 16)	**87,263**	86,397
	126,948	121,211
Shareholder's Equity		
Share capital		
Authorized: Unlimited number of a single class of shares with no par value		
Issued: 3,900 shares	**39,000**	39,000
Retained earnings	**21,394**	20,738
	60,394	59,738
	$ 187,342	$ 180,949

Contingencies and Commitments (Notes 18 and 19)
The accompanying notes are an integral part of the financial statements.

Approved by the Board

Chair

Director

STATEMENT OF INCOME, OTHER COMPREHENSIVE INCOME AND RETAINED EARNINGS (in thousands of dollars)

For the year ended December 31,	2007	2006
Revenue (Note 16)		
Sales of power	$ 28,077	$ 27,528
Other	309	533
	28,386	28,061
Operating expenses		
Administration (Note 14)	7,399	7,461
Operations and maintenance (Note 15)	5,599	5,375
Amortization of property, plant and equipment	4,939	4,732
Amortization of deferred charges	1,108	1,098
	19,045	18,666
Income from operations	**9,341**	9,395
Other income		
Allowance for funds used during construction	138	54
Amortization of capital assistance	215	215
Interest income	259	220
	612	489
Other expenses		
Interest on long-term debt (Note 16)	4,946	4,845
Provision for deferred uninsured losses (Note 6)	100	100
	5,046	4,945
Net income	**4,907**	4,939
Other Comprehensive Income	-	-
Net income and Other Comprehensive Income	**4,907**	4,939
Retained earnings, beginning of year	**20,738**	19,382
Dividend	**(4,251)**	(3,583)
Retained earnings, end of year	**$ 21,394**	$ 20,738

The accompanying notes are an integral part of the financial statements.

STATEMENT OF CASH FLOWS (in thousands of dollars)

For the year ended December 31,	2007	2006
Cash provided from Operations		
Cash receipts from customers	$ 28,886	$ 27,853
Cash paid to employees and suppliers	(13,900)	(14,988)
Interest paid	(4,946)	(4,845)
Interest received	259	220
	10,299	8,240
Cash (used for) provided from Financing		
Repayment of long-term debt	(3,222)	(1,501)
Contributions in aid of construction	4,665	733
	1,443	(768)
Cash used for Investment		
Additions to property, plant and equipment	(11,457)	(5,588)
	(11,457)	(5,588)
Net increase in cash	**285**	1,884
Cash, beginning of year	**5,952**	4,068
Cash , end of year	$ **6,237**	$ 5,952

The accompanying notes are an integral part of the financial statements.

December 31, 2007

1. NATURE OF OPERATIONS

Yukon Energy Corporation (the "Utility") was incorporated under the *Yukon Business Corporations Act* and is a wholly-owned subsidiary of Yukon Development Corporation, a corporation owned by the Government of Yukon. Yukon Energy Corporation generates, transmits, distributes and sells electrical energy in the Yukon. The Utility is not subject to income taxes.

The Utility is subject to overall regulation by the Yukon Utilities Board ("YUB") and specific regulation by the Yukon Territory Water Board. Both boards are independent from the Utility.

Rate Regulation

All operations of the Utility are regulated by the YUB pursuant to the *Public Utilities Act*. There is no minimum requirement for the Utility to appear before the YUB to review rates. However, the Utility is not permitted to charge any rate for the supply of power that is not approved by an Order of the YUB. The Utility is subject to a cost of service regulatory mechanism under which the YUB establishes the revenues required (i) to recover the forecast operating costs, including depreciation and amortization, of providing the regulated service, and (ii) to provide a fair and reasonable return on utility investment in rate base. Whereas actual operating conditions may vary from forecast, actual returns achieved can differ from approved returns.

The regulatory hearing process used to establish or change rates typically begins when the Utility makes an application for its proposed electricity rate changes over the next one or two forecast years. The YUB must ensure that its decision, which fixes electricity rates, complies with appropriate principals of rate making, all relevant legislation including the *Public Utilities Act* and directives issued by the Yukon Government through Orders-In-Council that specify how the interests of the customer and Utility are to be balanced.

The YUB typically follows a two-stage decision process. In the first stage, the total costs that the Utility will incur to provide electricity to its customers over the immediate future are approved. The approval of these costs determines the total revenues the Utility is allowed to collect from its customers. It is the responsibility of the YUB to examine the legitimacy of three classes of costs:

- the costs to the Utility to run its operations and maintain its equipment (personnel and materials);
- the cost associated with the amortization of all capital equipment; and
- the return on rate base (the costs related to borrowing that portion of rate base which is financed with debt, and the costs to provide a reasonable rate of return on that portion of rate base which is financed with equity).

As well, in the first stage, the YUB reviews the addition of costs to rate base and assesses these costs to ensure they are prudent.

In the second stage, the YUB approves how the revenue will be raised. This stage essentially determines the electricity rates for the various customer classes in the Yukon: residential, government, commercial and industrial. This process is guided mainly by requirements of Yukon Government Order-in-Council 1995/90 and can include a cost-of-service study which allocates the overall utility's cost of service to the various customer classes on the basis of appropriate costing principles.

Normally, the Utility applies for rates in advance of the applicable years. The last rate application was for the 2005 year. Interim hearings may be used between rate applications to deal with unforeseen circumstances which could result in the use of interim rates or riders until the next rate application when rates are reviewed and set as final.

Water Regulation
The Yukon Territory Water Board pursuant to the *Yukon Waters Act* decides if and for how long the Utility will have a water license for the purposes of operating hydro generation stations in the Yukon. The licenses will also indicate terms and conditions for the operation of these facilities.

Capital Structure
The Utility's policy is to maintain a relatively constant capital structure of 60% debt and 40% equity. Annual dividends are declared to the parent and typically loaned back in order to maintain this ratio.

2. CHANGE IN ACCOUNTING POLICIES

Change in accounting policy
Effective January 1, 2007, the Utility adopted the new CICA Handbook Sections 3855, *Financial Instruments - Recognition and Measurement*, Section 3861, *Financial Instruments – Disclosure and Presentation*, Section 1530 – *Comprehensive Income*, and Section 3865, *Hedges*. As required by the new standards, prior period results have not been restated.

Under the new standards, financial assets and financial liabilities are initially recognized at fair value and are subsequently accounted for based on their classification. Held-to-maturity financial assets and loans and receivables and other financial liabilities are measured at amortized cost using the effective interest method. Held for trading and available for sale financial assets are measured at fair value. Financial liabilities are categorized as held for trading or other financial liabilities. Unrealized gains and losses on those assets categorized as available for sale are temporarily recorded in other comprehensive income until the gains or losses are realized.

The Utility has classified its financial instruments as follows:

Accounts receivable	Loans and receivables
Accounts payable	Other liabilities
Long-term debt	Other liabilities

Pursuant to section 3855.88(e)(ii) of the CICA handbook, the Utility elected to look at all contracts entered into after January 1, 2003 for embedded derivates. No embedded derivatives were found.

Section 1530 requires the presentation of Comprehensive Income, which consists of net income and other Comprehensive Income. Comprehensive income is defined as the change in equity from transactions and other events from non-owner sources. Other Comprehensive Income comprises revenues, expenses, gains and losses that, in accordance with primary sources of GAAP, are recognized in Comprehensive Income, but excluded from net income. After having determined that it had no other Comprehensive Income item to report in its financial statements, the Utility has decided to comply with the new requirement in modifying the title of its Statement of Income and Retained Earnings which is now the Statement of Income, Comprehensive Income and Retained Earnings and in modifying the line Net Income for the year to become Net Income and comprehensive income for the year. The adoption of section 1530 had no impact on opening retained earnings.

In adopting the new standard for financial instruments the Utility is required to adopt CICA Handbook Section 3865, *Hedges*. These standards do not have an impact on the financial statements because the Utility does not engage in the types of transactions addressed by this section.

3. SIGNIFICANT ACCOUNTING POLICIES

Financial Statement Presentation

The financial statements of the Utility have been prepared by management. They conform to Canadian generally accepted accounting principles ("GAAP") and take into account generally accepted methods and practices of regulated bodies. The regulatory accounting policies adopted by the Utility may differ from the accounting policies otherwise expected using GAAP. In particular, the timing of the Utility's recognition of certain assets, liabilities, revenues and expenses as a result of regulation may differ from that of a non-regulated enterprise. Impacts of accounting for rate regulated operations are further described in Note 4. Consequently, the significant accounting policies have been classified accordingly in the notes below:

Rate regulated accounting policies

Property, plant and equipment

Property, plant and equipment include an allowance for funds used during construction ("AFUDC") calculated at the weighted average cost of capital which was 7.81% for 2007 (2006 – 7.81%). Upon retirement or disposal, any gain or loss is charged to income in the current year for assets depreciated on an individual basis, or charged to accumulated depreciation for assets depreciated on a pooled basis.

Regulatory liabilities

Regulatory liabilities represent amounts ordered by the YUB to be held by the Utility on behalf of ratepayers. Typically these amounts are either refunded to the customers or applied to ratepayer deficits through the rate-setting process.

Deferred uninsured losses

As a means of self-insurance, the Utility provides for uninsured losses. An annual provision is approved by the YUB and collected through customer rates. Variances between the approved annual provision and actual costs incurred are deferred until the following general rate application or until a specific application is made to the YUB requesting recovery from or refund to customers.

Deferred charges

Deferred charges are recorded at cost less accumulated amortization.

Cost of feasibility studies and infrastructure planning are amortized on a straight-line basis over five years.

Regulatory hearing costs that are approved by the Yukon Utilities Board are amortized over three years. The remaining amounts in hearing costs at year end are waiting for an approval term by the Yukon Utilities Board. See note 4.

Other deferred charges are amortized to earnings on a straight-line basis over various terms approved by the Yukon Utilities Board.

Regulatory provision for future removal and site restoration costs

The Utility maintains a provision for the future removal of property, plant and equipment and the costs of site restoration related to those assets. Per YUB Order 2005-12 no additional provision is permitted. This account provides for the costs of demolishing, dismantling, tearing down, or otherwise disposing of an asset and any site restoration costs, net of actual recoveries. This account is not used when the costs relate to an asset retirement obligation.

Deferred revenue
Deferred revenue represents a gain on fire insurance proceeds received related to a fire at the Whitehorse Rapids Generating Station in 1997. The gain is being amortized to income at the same rate as the replacement assets.

Diesel contingency fund
The Utility maintains a trust asset and an offsetting trust liability on behalf of ratepayers. The trust is used to reimburse the Utility for costs associated with diesel generation required when there is not sufficient water for hydraulic generation to meet demand. The Utility is required to file an annual report with the YUB on the fund's activity.

Generally Accepted Accounting Principles
Revenue recognition
All revenues for energy sales, including wholesale power sales, are recognized in the period earned. Revenue from the sale of power is recognized based on cyclical meter readings. Sales of power includes an accrual for electricity deliveries not yet billed.

Materials and supplies
Diesel fuel, materials and supplies are recorded at average cost. Obsolete materials and supplies are recorded at salvage value in the period when obsolescence is determined.

Property, plant and equipment
Property, plant and equipment is stated at cost which includes materials, direct labour, a proportionate share of directly attributable administration overhead, and finance charges capitalized during construction, less accumulated amortization.

Amortization is based on the straight-line method over the estimated economic life of the assets as follows:

Generation	
Hydro-electric plants	30 to 65 years
Diesel plants	25 to 45 years
Wind Turbines	30 years
Transmission	40 to 50 years
Distribution	25 to 40 years
Buildings	20 to 40 years
Transportation	9 to 31 years
Other equipment	5 to 20 years

Asset retirement obligations
On an annual basis, the Utility identifies legal obligations associated with the retirement of tangible long-lived assets. Where a reasonable estimate of the fair value of these obligations can be determined, the total retirement costs are to be recorded as a liability at fair value, with a corresponding increase to property, plant and equipment.

The Utility has determined that it has tangible long-lived assets with associated future legal obligations for retirement. As the Utility anticipates using the assets for an indefinite period, the date of removal of these assets cannot be reasonably determined, and therefore an asset retirement obligation has not been recorded. When the timing and amount of the retirement can be reasonably estimated, an asset retirement obligation and the corresponding increase in property, plant and equipment asset will be recognized.

Contributions in aid of construction
Certain property, plant and equipment additions are made with the assistance of cash contributions from customers or capital assistance from the Utility's parent. These contributions are amortized to income on the same basis as the assets to which they relate. Amortization of contributions from customers is netted on the statement of income against amortization expense while amortization of capital assistance from the parent is disclosed separately under Other income.

Deferred water licensing costs
Costs related to obtaining water license renewals are deferred and amortized to earnings on a straight-line basis over the term of the license. The Utility operates its hydro generation facilities under three separate water licenses, with terms ranging from 17 to 25 years.

Employee pension plan
The Utility has a defined benefit pension plan which provides for pensions based on length of service and final average earnings. Employees joining the Utility after January 1, 2002 are not eligible to participate in the defined benefit plan. The cost of pension benefits is actuarially determined using the projected benefits method, prorated on service, and reflects management's best estimates of investment returns, wage and salary increases, and age at retirement. Adjustments resulting from the plan enhancements, actuarial gains and losses, and changes in assumptions are amortized over the expected average remaining service period of active employees. Pension costs include the current cost of service and amortization of past service benefits and plan enhancements, and actuarial gains and losses. Amortization is on a straight-line basis over the expected average remaining service period of active employees, which is currently 12 years. The transitional asset that arose when this policy was first applied is amortized over the average remaining service period of active employees expected to receive benefits under the benefit plan as of January 1, 2000. The expected return on plan assets is based on the fair value of these assets.

Measurement uncertainty
The preparation of financial statements in accordance with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. This mainly affects revenue, accounts receivable, property, plant and equipment, asset retirement obligations, and employee pension obligations. Actual results could differ by a significant amount from these estimates.

Management's estimates and assumptions, especially those affecting the reported amounts of assets and the Utility's ability to recover the cost of these assets through future rates, are subject to decisions of the Yukon Utilities Board as described in Note 3.

Future Accounting Changes – Financial Instrument Disclosures and Capital Disclosures
On December 1, 2006, the CICA issued three new accounting standards: Handbook Section 3862 *Financial Instruments – Disclosures*; Section 3863 *Financial Instruments – Presentation*; and Section 1535 *Capital Disclosures*. These standards apply to fiscal years beginning on or after October 1, 2007 and accordingly will be effective for the Utility on January 1, 2008.

Sections 3862 and 3863 replace Section 3861 *Financial Instruments – Disclosure and Presentation*, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks. These sections are currently being assessed by management to determine the applicability and impact on the Utility's financial statements.

Section 1535 specifies the disclosure of (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance. This section is expected to have limited impact on the Utility's financial statements.

Section 3031 is a new recommendation for the measurement and disclosure of inventories. This section provides guidance on the determination of cost and its subsequent recognition as an expense, including any write down to net realizable value and on the cost formulas that are used to assign costs to inventories. The adoption of these recommendations is not expected to have a material impact on the earnings or assets of the Utility.

Effective January 1, 2009 the CICA has removed a temporary exemption in its accounting recommendations that permitted assets and liabilities arising from rate regulation to be recognized and measure on a basis other than in accordance with primary sources of GAAP. The Utility is evaluating the possibility of using standards issued by the Financial Accounting Standards Board in the United States that allow for the recognition and measurement of rate regulated assets and liabilities as another source of Canadian GAAP . This section is currently being assessed by management to determine the impact on the Utility's financial statements.

4. FINANCIAL STATEMENT EFFECTS OF RATE REGULATION

Certain items in these financial statements are accounted for differently than they would be in the absence of rate regulation.

Where regulatory decisions dictate, the Utility defers certain costs or revenues as assets or liabilities on the balance sheet and records them as expenses or revenues in the statement of income as it collects or refunds amounts through future customer rates. Any adjustments to these deferred amounts are recognized in earnings in the period that the YUB renders a subsequent decision.

Regulatory assets represent future revenues associated with certain costs, incurred in the current period or in prior periods, which are expected to be recovered from customers in future periods through the rate-setting process. Regulatory liabilities represent future reductions or limitations of increases in revenues associated with amounts that are expected to be refunded to customers as a result of the rate-setting process.

The following describes each of the circumstances in which rate regulation affects the accounting for a transaction or event:

	2007	2006	Expected remaining recovery/ settlement (years)	For 2007: In the absence of Rate Regulation the Utility's Net Income would have increased (decreased) by:
Regulatory assets:				
Deferred charges (Note 9), net book value				
Feasibility studies	$ 2,319	$ 2,999	1 to 5	$ 680
Downsizing costs	24	71	1	47
Hearing costs	1,071	311	Indeterminate	(760)
Dam safety review	27	49	2	22
Diesel contingency fund (Note 7)	856	821	Indeterminate	(35)
	4,297	4,251		(46)

December 31, 2007

Regulatory liabilities:				
Faro mine dewatering deferral revenue (Note 10)	1,191	1,483	Indeterminate	(292)
Deferred gain on fire insurance proceeds (Note 11)	7,626	7,896	28	(270)
Deferred uninsured losses (Note 6)	(463)	(500)	Indeterminate	37
Regulatory provision for future removal and site restoration costs	5,241	5,083	Indeterminate	158
Diesel contingency fund (Note 7)	856	821	Indeterminate	35
	14,451	14,783		$ (332)
Net impact	$ (10,154)	$ (10,532)		$ (378)

Regulatory assets

(a) Deferred charges

Deferred charges represent costs which have been deferred and are being amortized over various periods. In the absence of rate regulation, GAAP would require such costs to be recognized as expenses in the year incurred.

Feasibility studies

The costs of determining the feasibility of future capital projects that did not result in a capital project are deferred and amortized over five years as approved in the Utility's 1991/92 General Rate Application and re-confirmed in YUB Order 2005-12. In the absence of rate regulation, expenses in 2007 would have been $680,000 lower (2006 - $1,501,000 higher expenses).

Downsizing costs

Costs incurred to assist in downsizing the Utility's workforce are capitalized and amortized to expense over seven years as approved in the Utility's 1993/94 General Rate Application and reconfirmed in YUB Order 2005-12. In the absence of rate regulation, expenses in 2007 would have been $47,000 lower (2006 - $48,000 lower expenses).

Hearing costs

These costs are associated with the YUB regulatory proceedings that were held in 2005 and the Resource Plan Proceedings that were held for the Carmacks-Stewart Transmission Project in 2007. The costs consist primarily of legal and consulting costs incurred by the Utility and reimbursement of YUB and intervener costs. YUB Order 2005-12 directed the Utility to defer and amortize the hearing costs over three years. YUB Order 2007-9 directed the Utility to record the Resource Plan Proceeding costs in a Hearing Reserve Account and in the next GRA to include a proposal on how to dispense with the Hearing Reserve Account. In the absence of rate regulation, expenses in 2007 would have been $760,000 higher (2006 - $311,000 lower expenses).

Dam safety review

The Utility has a program of conducting reviews of the safety of its dams in accordance with standards set by the Canadian Dam Association. External consultants are hired every five years with intermittent costs incurred in the interim periods. These costs are amortized over five years as approved by the Utility's 1991/92 General Rate Application and reconfirmed in YUB Order 2005-12. In the absence of rate regulation, expenses in 2007 would have been $22,000 lower (2006 - $40,000 lower expenses).

(b) Diesel contingency fund

The Diesel contingency fund ("DCF") was established by YUB Order 1996-6 through the Negotiated Settlement process. The DCF is administered by the Utility on behalf of the YUB, and as such is recorded as a trust asset and a trust liability. The DCF attracts interest based upon short-term bond rates in which the Utility invests the funds held in trust. Any negative balance attracts interest at the lowest short-term borrowing rate available to the Utility through its line of credit. Pursuant to YUB order 1996-6, the Utility from time to time is required to transfer amounts to or from the trust it maintains on behalf of ratepayers to reimburse the Utility for costs associated with diesel generation required when there is not sufficient water for hydraulic generation to meet demand. In the absence of regulation, GAAP would have required any interest earned or incurred to be included in the Utility's net income in the year in which they occurred. In the absence of rate regulation, the Utility's net income in 2007 would have been higher by $35,000 from interest earned on the DCF (2006 - $30,000 higher net income).

Regulatory liabilities

(c) Faro mine dewatering deferral revenue

As directed by YUB Order 1998-5, all revenues, less any incremental costs to provide the service, collected from the Faro Mine under Rate Schedule 34 (Faro Mine Firm Shutdown Power) prior to December 31, 2004, were deferred for the benefit of ratepayers pending direction from the YUB. YUB Order 2005-12 confirmed that effective January 1, 2005 the Faro minesite would be charged the General Service-Government rate so there will be no further increases to Faro Mine Dewatering Deferral Account. This order also enables the Utility to draw down on the Faro Mine dewatering revenue to fund its approved revenue shortfall. YUB Order 2007-2 set the approved 2007 revenue shortfall at $292,000. In the absence of rate regulation, GAAP would have required only the recognition of actual sales earned during the year. As a result, the Utility's sales of power in 2007 would have been $292,000 lower (2006 - $292,000 lower). The period over which the remaining liability will be recognized as revenue for the benefit of ratepayers is dependent on future YUB Board orders and, therefore, cannot be estimated.

(d) Deferred gain on fire insurance proceeds

The deferred gain on fire insurance proceeds relates to a fire at the Whitehorse Rapids Generating Station in 1997 which, pursuant to Board Order 2000-3, is being amortized to income at the same rate as the replacement assets. In the absence of rate regulation, GAAP would have required the gain to have been completely recognized as income in the year received. As a result, the Utility's net income in 2007 would have been lower by the amount of the amortization of $270,000 (2006 - $270,000 lower).

(e) Deferred uninsured losses

The YUB has approved the use of a provision for uninsured damages and injuries as a means of self-insurance. The provision is maintained through an annual provision approved by the YUB. In order to eliminate the deficit rate payers held as a result of uninsured losses, the Utility was directed by YUB Order 2005-12 to transfer the insurance proceeds being held on behalf of rate payers of $744,000 to the reserve for uninsured loss, and increase the annual provision from $50,000 to $100,000 for the years 2005 to 2007. In the absence of rate regulation, GAAP would require costs to be expensed as incurred and, therefore, expenses in 2007 would have been lower by $37,000 (2006 - $533,000 higher). The period over which the provision will be recovered is dependent on the magnitude of future actual losses incurred and cannot be estimated.

(f) Regulatory provision for future removal and site restoration costs

Pursuant to amortization rates approved by the YUB in the Utility's previous general rate applications, under section 23(1)(b) of the Public Utilities Act, the Utility has maintained a reserve for future removal and site restoration costs. As a result of the YUB Order 2005-12, effective January 1, 2005, the Utility is required to maintain this reserve as a regulatory provision in addition to any asset retirement obligations. The provision is not to exceed the cumulative value of the provision at December 31, 2004 of $5,757,000. In the absence of rate regulation, GAAP would have required the Utility to reverse the provision to retained earnings in 2004. YUB Order 2005-12 also directs the Utility to notify interveners and interested parties when the balance of the provision reaches $2,000,000. Costs of dismantling capital assets, including site remediation, will be applied to this regulatory liability if they do not otherwise relate to an asset retirement obligation. In a non-regulated industry, future removal and site restoration costs would be limited to asset retirement obligations, and the removal and site restoration costs would be expensed in the year incurred if they did not relate to an asset retirement obligation. In the absence of rate regulation, the Utility's 2007 expense would have been lower by the amount of actual removal and site restoration costs incurred in the year of $158,000 (2006 expenses - $535,000 higher). The period over which the provision will be settled is dependent on the future costs of demolishing, dismantling, tearing down, or otherwise disposing of the asset, and site restoration net of actual recoveries, and is, therefore, indeterminate.

(g) Fuel price adjustment

OIC 1998/90 directs the YUB to permit the Utility to adjust electricity rates to reflect fluctuations in the price of diesel fuel. The amount by which actual fuel prices vary from the YUB approved rates is deferred and recovered from or refunded to customers in a future period.

In the absence of rate regulation, GAAP would require that actual diesel fuel expenses be included in the operating result of the year that they are incurred. In 2007, fuel expenses were deferred and consequently lower by $72,000 (2006 - $56,000 lower).

Other items affected by rate regulation

The Utility is required under the *Public Utilities Act* to obtain prior approval from the YUB before making changes to depreciation, amortization, and depletion rates and methods. The YUB permits an allowance for funds used during construction ("AFUDC"), based on the Utility's weighted average cost of capital, to be included in the rate base. AFUDC is also included in the cost of property, plant and equipment for financial reporting purposes, and is depreciated over future periods as part of the total cost of the related asset, based on the expectation that depreciation expense, including the AFUDC component, will be approved for inclusion in future customer rates. Since AFUDC includes not only a cost of debt component, but also a cost-of-equity component, it exceeds the amount allowed to be capitalized in similar circumstances in the absence of rate regulation.

It is the Utility's policy to charge to income, in the year of disposal, any gain or loss upon retirement or disposal of land or vehicles. As approved by the YUB, the gain or loss on all other property, plant and equipment is charged to accumulated amortization and deferred and amortized over the expected life of the remaining pool of similar assets. In the absence of rate regulation, GAAP would require the gain or loss on the disposal or retirement of all property, plant and equipment to be included in income in the period of disposal or retirement.

YUB Order 2005-12 disallows the Utility from earning a return on any additional costs incurred with respect to the Mayo-Dawson line as a result of pursuing any claims or counter claims against the general contractor and directs the Utility to record any recoveries from the general contractor in an interest-bearing deferred account for future review and disposition by the YUB.

The Utility's policy of maintaining a constant capital structure of 60% debt and 40% equity is reviewed by the YUB as part of the rate-setting process and in the determination of the return on rate base. In the absence of rate regulation, the Utility would determine the appropriate capital structure solely based on decisions by the Board of Directors of the Utility, which may differ from the current policy.

All amounts maintained as regulatory assets and liabilities are expected to be recovered or settled over the periods noted above. However, there are risks and uncertainties associated with the recovery or settlement related to potential future decisions of the regulator which could result in material adjustments to these assets and liabilities.

5. ACCOUNTS RECEIVABLE

	2007	2006
Wholesale energy sales	$ 2,853	$ 2,764
Retail energy sales	842	1,109
Other	31	353
	$ 3,726	$ 4,226

Wholesale energy sales are made to Yukon Electrical Company Limited, an unrelated company also regulated by the Yukon Utilities Board. Wholesale energy sales in 2007 were approximately $18,402,000 (2006 - $18,111,000).

6. DEFERRED UNINSURED LOSSES

	2007	2006
Opening balance	$ (500)	$ 33
Provision for uninsured losses	100	100
Losses incurred		
Asset replacements	(63)	(633)
Closing balance	$ (463)	$ (500)

7. DIESEL CONTINGENCY FUND

	2007	2006
Opening balance	$ 821	$ 791
Interest	35	30
Closing balance	$ 856	$ 821

Diesel Contingency Funds are monies invested in a pooled market fund. The short-term securities held in the fund have an average maturity of less than 90 days. Earnings are distributed monthly on a pro-rata share of the total fund. Annual return on investment for 2007 was 4.63% (2006 - 4.08%). The fair market value of these investments is equal to the carrying amount.

8. PROPERTY, PLANT AND EQUIPMENT

	Cost	Accumulated Amortization	2007 Net book Value	2006 Net book Value
Generation	$ 138,983	$ 49,066	$ 89,917	$ 91,317
Transmission	54,547	12,077	42,470	43,244
Buildings and other equipment	16,720	5,988	10,732	10,221
Distribution	15,360	5,357	10,003	9,483
Transportation	2,572	764	1,808	1,390
Land and land rights	1,119	-	1,119	1,074
Construction-in-progress	8,345	-	8,345	1,263
	$ 237,646	$ 73,252	$ 164,394	$ 157,992

9. DEFERRED CHARGES

	Cost	Accumulated Amortization	2007 Net book Value	2006 Net book Value
Deferred water licensing costs	$ 8,683	$ 2,996	$ 5,687	$ 5,808
Feasibility studies and infrastructure planning	3,172	853	2,319	2,999
Hearing costs	2,004	933	1,071	311
Downsizing costs	334	310	24	71
Dam safety review	213	186	27	49
	$ 14,406	$ 5,278	$ 9,128	$ 9,238

10. REGULATORY LIABILITIES

	2007	2006
Faro Mine Dewatering Deferral revenue		
Opening balance	1,483	1,775
Applied to revenue shortfall YUB Order 2007-2 (Note 3)	(292)	(292)
Closing balance	$ 1,191	$ 1,483

11. DEFERRED REVENUE

	2007	2006
Deferred gain on fire insurance proceeds – property and equipment (net of amortization and adjustments of $3,977,000 (2006 - $3,707,000))	$ 7,626	$ 7,896
	$ 7,626	$ 7,896

12. CONTRIBUTIONS IN AID OF CONSTRUCTION

	Gross	Accumulated Amortization	2007 Net	2006 Net
Capital assistance from parent since 1998	$ 13,305	$ 1,492	$ 11,813	$ 7,579
Contributions from customers since 1998	4,303	416	3,887	3,792
Pre-1998 contributions	1,739	944	795	816
	$ 19,347	**$ 2,852**	**$ 16,495**	$ 12,187

The sources of contributions received prior to 1998 were not recorded separately.

13. LONG-TERM DEBT

The Utility's long-term debt is summarized as follows:

	2007	2006
Yukon Development Corporation		
$40,000,000 flexible term note bearing interest at 7% repayable in annual installments of up to $1,000,000 principal, plus accrued interest and secured by mortgage over specific assets	26,789	27,316
$27,313,661 term note bearing interest at 5.88%, payable monthly, and semi-annual principal payments commencing June 30, 2007 and ending December 31, 2023. The note is unsecured.	25,707	27,314
$18,000,000 flexible term note related to the Mayo to Dawson Transmission Line project bearing interest at 6.55% repayable in annual installments of $450,000 principal, plus accrued interest with the balance of $307,000 due December 31, 2043. The note is unsecured.	16,057	16,507
Unsecured advance bearing interest at 6.03%, due one year after demand	3,649	3,649
Unsecured advance bearing interest at 5.403%, due one year after demand	2,839	2,839
Unsecured advance bearing interest at 5.34%, due one year after demand	3,583	3,583
Unsecured advance bearing interest at 5.28%, due one year after demand	4,251	-
TD Canada Trust		
$12,400,000 term note bearing interest at 7.81% payable in monthly installments of $102,000 interest and principal, with the balance due September 30, 2011. The note is guaranteed by the Yukon Government.	7,804	8,442
	90,679	89,650
Less current portion	3,416	3,253
	$ 87,263	$ 86,397

$40,000,000 Flexible term note
The terms of the flexible term note provide for payments of principal and interest to be deferred and abated, respectively, if power sales on the Whitehorse-Aishihik-Faro electrical power distribution system are less than specified amounts. After adjusting for abated interest, the effective interest rate on this instrument for 2007 is 3.84% (2006 - 3.01%).

Mayo - Dawson Transmission Line Financing
The Utility obtained financing from its parent in the amount of $18 million for a transmission line from the Mayo hydro generating station to Dawson City. The financing was obtained effective September 6, 2003, the date the transmission line came into service. The financing was made under terms that ensure that ratepayers are not paying more in any year than they would otherwise have paid if the transmission line had not been built and Dawson City had continued to be served by diesel generation. The maximum interest payable on the note in any year is determined by a formula which compares the costs and benefits of operating the line. For example, the costs include amortization, return on equity, and operating and maintenance expense. The benefits include diesel fuel costs not incurred. As per the agreement, total costs, including interest, cannot exceed the benefits.

If the costs of operating the line exceed the benefits in any year, Yukon Development Corporation will pay Yukon Energy Corporation the difference on or before March 31 of the next calendar year.

In 2007, benefits exceeded costs, which resulted in $1,081,000 in interest paid to Yukon Development Corporation. (In 2006, benefits exceeded costs, which resulted in $1,111,000 in interest paid to Yukon Development Corporation.)

Unsecured Advances
The Utility declared a dividend to the parent in the amount of $4,251,000 (2006 - $3,583,000) and this was loaned back to the Utility at an interest rate of 5.28% in order to maintain the capital structure. This advance is unsecured and due one year after demand.

Long -term debt repayment
Scheduled repayments for all long-term debt are as follows:

2008	3,415
2009	3,428
2010	3,484
2011	3,543
2012	3,609
Thereafter	73,200
	$ 90,679

Fair value
Fair value at December 31, 2007 of $101 million (2006 - $105 million) for all long-term debt was estimated using discounted cash flows based on an estimate of the Utility's current borrowing rate for similar borrowing arrangements.

14. ADMINISTRATION EXPENSES

	2007	2006
Wages and benefits	$ 3,202	$ 2,767
General office	1,152	1,175
Insurance and taxes	1,069	1,062
Information systems	530	435
Regulatory loss	481	1,039
Training, recruitment and development	459	212
Environmental	173	145
Board of Directors	167	91
Intercompany services	146	372
Material management and contracting	20	163
	$ 7,399	$ 7,461

15. OPERATIONS AND MAINTENANCE EXPENSES

	2007	2006
Wages and benefits	3,246	3,129
Maintenance		
- building and vehicle	730	643
- hydro, diesel and wind	677	641
- lines and substations	567	664
Fuel	218	125
Water level measurement	161	173
	$ 5,599	$ 5,375

16. RELATED PARTY TRANSACTIONS

Except as disclosed elsewhere, the following table summarizes the Utility's related party transactions for the year:

	2007	2006
Revenue		
Sales of service to:		
- direct parent company	$ 157	$ 216
- wholly-owned subsidiary of parent company	-	31
	$ 157	$ 247
Rate Stabilization Fund subsidy revenue from:		
- direct parent company	$ 310	$ 432
Expense		
Payment of interest on long-term & short-term debt to:		
- direct parent company	$ 4,311	$ 4,164
Payment for financial information system usage to:		
- direct parent company	177	177
Other receipts		
Rural Electrification Support Program funding:		
- direct parent company	$ -	$ 86
Contributions for Carmacks Stewart Transmission Line		
- direct parent company	$ 4,450	$ -
Other payments		
Payment on contribution agreements to:		
- direct parent company	$ 25	$ 25

The transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

Revenue from related parties is reported as Other revenue on the statement of income. The corresponding cost of providing these services is reported as part of administration expense on the statement of income.

Rate stabilization fund revenues are received from the parent in accordance with terms established by the Government of Yukon, which established the fund to protect certain ratepayers by minimizing the impact of rate increases. These revenues are reported on the statement of income as a component of sales of power.

Interest on long-term debt is included on the income statement under Other expenses.

Rural Electrification Support Program funds are received from the parent and are recorded as an offset to the capitalized cost of the respective project.

At the end of the year, the amounts receivable from and due to related entities are as follows:

	2007	2006
Direct parent company		
Accounts receivable	$ 76	$ 179
Accounts payable	$ 74	$ 68
Current portion of long-term debt	$ 2,776	$ 2,609
Long-term debt	$ 80,099	$ 78,599

These balances are non-interest bearing and payable on demand except for long-term debt (Note 13).

17. PENSION COSTS AND OBLIGATIONS

The Utility sponsors a defined benefit pension plan which provides benefits based on length of service and final average earnings as follows:

- years of pensionable service;
- the average annual earnings during any five consecutive years of pensionable service where earnings are the highest; and
- the average of the years maximum pensionable earnings (Canada Pension Plan) for the same five year period

Annual cost of living increases to a maximum of 3.00% are provided to pensioners. The Utility contributes amounts as recommended by an independent actuary.

Employees make contributions to the plan as follows:

- 3.5% of earnings up to the year's maximum pensionable earnings; and
- 5.0% of earnings in excess of year's maximum pensionable earnings to a maximum of $2,500 per year.

The Utility has contracted with external organizations to provide services of trustee, administrator and investment manager for the pension plan.

An actuarial valuation for funding purposes was performed as of January 1, 2007 by the consulting actuarial firm AON Consulting Inc. The next valuation for funding purposes will be conducted as of January 1, 2010. The pension costs and obligations were based on the data used in the January 1, 2007 funding valuation and have been projected to December 31, 2007 in accordance with generally accepted actuarial standards.

The fair value of the plan assets is based on market values as reported by Group Retirement Services, the plan's custodian as at December 31, 2007. The plan assets are invested in a pooled balanced fund. The distribution of assets by major asset class is as follows:

	December 31, 2007	December 31, 2006
Equities	51.0%	51.9%
Fixed Income Securities	38.2%	38.3%
Real Estate	10.8%	9.8%

Information about the Utility's defined benefit plan as at December 31, in aggregate, is as follows:

	2007	2006
Discount rate-accrued benefit obligation	5.50%	5.25%
Discount rate-benefit costs	5.25%	6.00%
Expected long-term rate of return on plan assets	6.50%	6.50%
Assumed rate of salary escalation	3.00%	3.00%
Assumed rate of pension indexing	2.50%	2.50%
Expected average remaining service period of active employees	12 years	14 years
Benefit obligation determined by actuarial valuation	$ 10,010	$ 9,181
Fair value of plan assets	7,500	7,006
Plan deficit	$ 2,510	$ 2,175
Unrecognised amount:		
- transitional asset	169	186
- net actuarial losses	(1,875)	(1,741)
Accrued benefit liability	$ 804	$ 620
Pension expense	$ 493	$ 506
Employer contributions	$ 308	$ 307
Employee contributions	$ 113	$ 115
Benefits paid	$ 117	$ 60

The accrued benefit liability has been recorded on the Utility's books of account and its current portion of $63,000 (2006 - $60,000) is included in accounts payable on the balance sheet.

Employees joining the Utility after January 1, 2002 are not eligible to participate in the defined benefit plan. The Utility makes contributions to a Registered Retirement Savings Plan ("RRSP") on behalf of these employees and employees hired before January 1, 2002 who belonged to the defined benefit plan and elected to opt out of that plan. The RRSP is a defined contribution plan. The costs recognized for the period are equal to the Utility's contribution to the plan. During 2007, these were $184,000 (2006 - $149,000).

Total cash payments for employee future benefits for 2007, consisting of cash contributed by the Utility to its funded defined benefit pension plan and cash contributed directly to the RRSP were $492,000 (2006 - $456,000).

As at December 31, 2007, the Utility's defined benefit pension plan had 38 members (2006 - 40), and the RRSP had 41 members (2006 – 40 members).

18. CONTINGENCIES

Mayo to Dawson City transmission line project

The Utility completed the construction of the Mayo to Dawson City Transmission Line project during 2003. Subsequent to energization of the line, the Utility and the general contractor notified each other that they have numerous claims arising out of the agreement and the construction of the line. These claims total several million dollars on a net basis.

Third party proceedings have been initiated by both the Utility and the general contractor against other consultants and subcontractors to the Project. Documents will be exchanged between all parties by July 14, 2008, and examinations for discovery will commence in the fall of 2008. The consolidated trial of all claims and third party claims is scheduled for 2010. To date, the Utility has insufficient information to assess the merits of the various claims.

19. COMMITMENTS

(a) Major Construction Project

(i) Power Purchase Agreement

On February 8, 2007, the Utility signed a Power Purchase Agreement (PPA) with Minto Explorations Limited (MEL). After review by the Yukon Utilities Board and due diligence by the Utility, the agreement was amended on May 14, 2007 and May 25, 2007, respectively.

Under the amended PPA (approved by the Yukon Utilities Board on Order 2007-6), the Utility agreed to construct a power line to the MEL mine site to deliver electricity from its grid for the mine's operation subject to various conditions to be met before the agreement could take full effect. The significant provisions include:

- a firm mine rate (as subsequently set out in OIC 2007/94),
- a low grade ore processing secondary energy rate,
- a minimum take-or-pay amount of $12,000,000 to be paid by MEL within the first four years of service by the Utility,
- certain security to be provided to the Utility by MEL,
- a capital cost contribution by MEL to the Utility (for the full capital cost of the transmission line from Minto Landing to the mine site plus a contribution of $7,200,000 towards the cost of the power line from Minto Landing to the existing grid at Carmacks),
- decommissioning costs to be paid to the Utility by MEL, and
- In consideration for assignment of four leased diesel generators with a combined continuous rating of 6.4 MW, YEC will pay MEL $2,240,000 subject to certain conditions and adjustments.

The Utility has agreed in the PPA to finance MEL's capital contribution over seven years at an interest rate of 7.5% per annum, subject to conditions and potential adjustments, with MEL making payments annually.

The Yukon Development Corporation (YDC) and the Utility have agreed on certain matters related to the MEL capital cost contribution, including YDC's agreement:

- to assume from the Utility the financing risk of the MEL capital cost contribution and
- to guarantee all capital cost payments by MEL to the Utility under the PPA, and
- to pay directly to the Utility any amount in excess of $7,200,000 of the contribution required by MEL towards the cost of the power line from Minto Landing to the existing grid at Carmacks.

All conditions required for the PPA to take full effect were cleared or waived by December 17, 2007.

(ii) Construction Commitments
During 2007, the Utility entered into major contracts with third parties related to project management, survey, clearing and construction necessary to deliver power to the Minto mine site and the community of Pelly Crossing. The total approved budget (including planning costs) is $37,700,000 and the line is anticipated to be energized by September 30, 2008. By year end, the Utility had spent $6,300,000 on the project, which is recorded in property, plant and equipment. The Corporation has contribution commitments from the Government of Yukon for $10,450,000 which is to be received the following year.

(iii)Project Agreement
On October 19 2007, the Utility signed a Project Agreement with the Northern Tutchone First Nations (NTFN). This agreement defines certain rights and obligations of the parties as they pertain to the Carmacks Stewart Transmission Project defined above. The Utility has granted the NTFN an option on certain terms and conditions to take over part or all of the financing being provided to the Minto Mine by the Utility in relation to the capital contribution made by the mine under the PPA agreement. The financing amount will be for all or part of the capital cost of the Mine Spur and the $7,200,000 contribution to the main line. The option must be exercised prior to September 30, 2008 or such later date as to which the Utility agrees.

(b) Financial Information System Lease
The Utility leases a financial information system from the parent. Minimum lease payments for the remaining two years are as follows:

2008		177
2009		147
Total	$	324

(c) Aishihik Water Licence
The Yukon Territory Water Board issued a water use license in 2002, valid until December 31, 2019, for the Utility's Aishihik Lake facility. In addition to maintaining a minimum and maximum water level, this license commits the Utility to meet a number of future requirements including:

a) annual payments of $25,000 until 2011 for the purpose of construction and maintenance of a heritage camp and delivery of programs at the camp;
b) Heritage Mitigation Plan. The Utility did not incur expenditures in 2007 on heritage projects, expects to spend up to $7,500 in 2008 on heritage projects, and the balance which has not yet been determined in the future; and
c) annual fish monitoring programs.

Fish monitoring programs are also required under an authorization provided by the federal government Department of Fisheries and Oceans, which is valid until December 31, 2019. The costs of meeting these requirements are accounted for as water licence costs in the year they are paid.

20. ENVIRONMENTAL LIABILITIES

The Utility's activities are subject to various federal and territorial laws and regulations governing the protection of the environment or to minimize any adverse impact thereon. The Utility conducts its operations so as to protect public health and the environment and believes its operations are materially in compliance with all applicable laws and regulations. Liabilities will be recorded when the occurrence of an environmental expenditure, related to present or past activities of the Utility, is considered probable and the costs can be reasonably estimated. To date, no such specific liabilities have been recorded in the Utility's accounts.

21. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

At December 31, 2006 and 2007, Yukon Energy Corporation's financial instruments included cash and cash equivalents, accounts receivable, accounts payable and long-term debt. The carrying value of cash and cash equivalents, accounts receivable, accounts payable and long-term debt due within one year approximate their fair value due to the immediate or short-term maturity of these financial instruments.

All long-term debt is being classified as other than held for trading. The fair values of the long-term debt are estimated based on quoted market prices for the same or similar issues as well as the use of discounted future cash flows using current rates for similar financial instruments subject to similar risks and maturities. The fair value of long-term debt is described in Note 13.

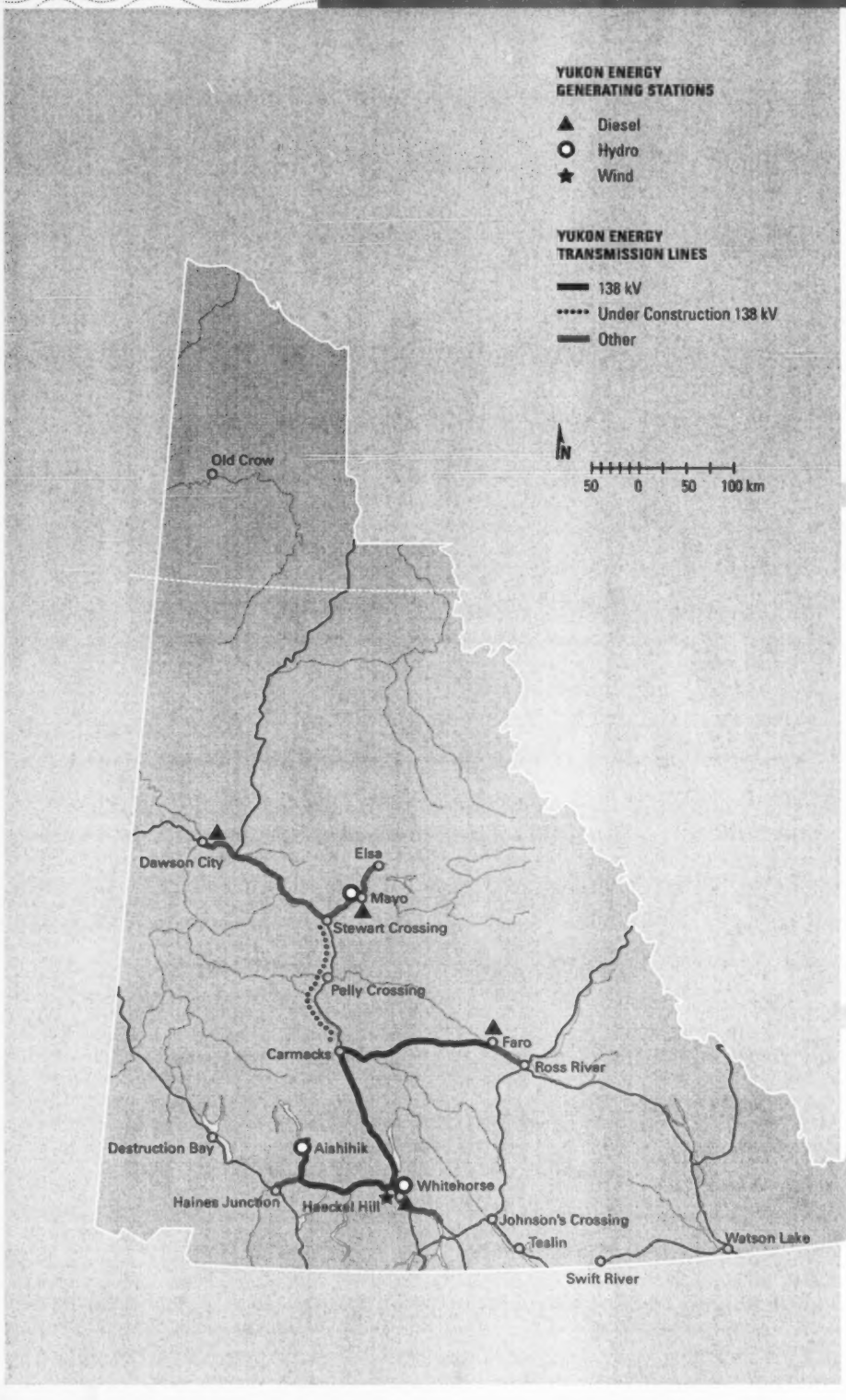
The Utility also has access to a $10 million line of credit. The renewal date on the line of credit is October 31, 2009. The account accrues interest on withdrawals at prime rate. The facility was not drawn on at year-end.

The Utility is not exposed to significant interest rate risk due to its long-term debt having fixed interest rates. The Utility's credit risk is minimal in that its primary customer is a regulated utility.

22. COMPARATIVE FIGURES

Certain 2006 figures have been reclassified to conform with the current year's presentation.

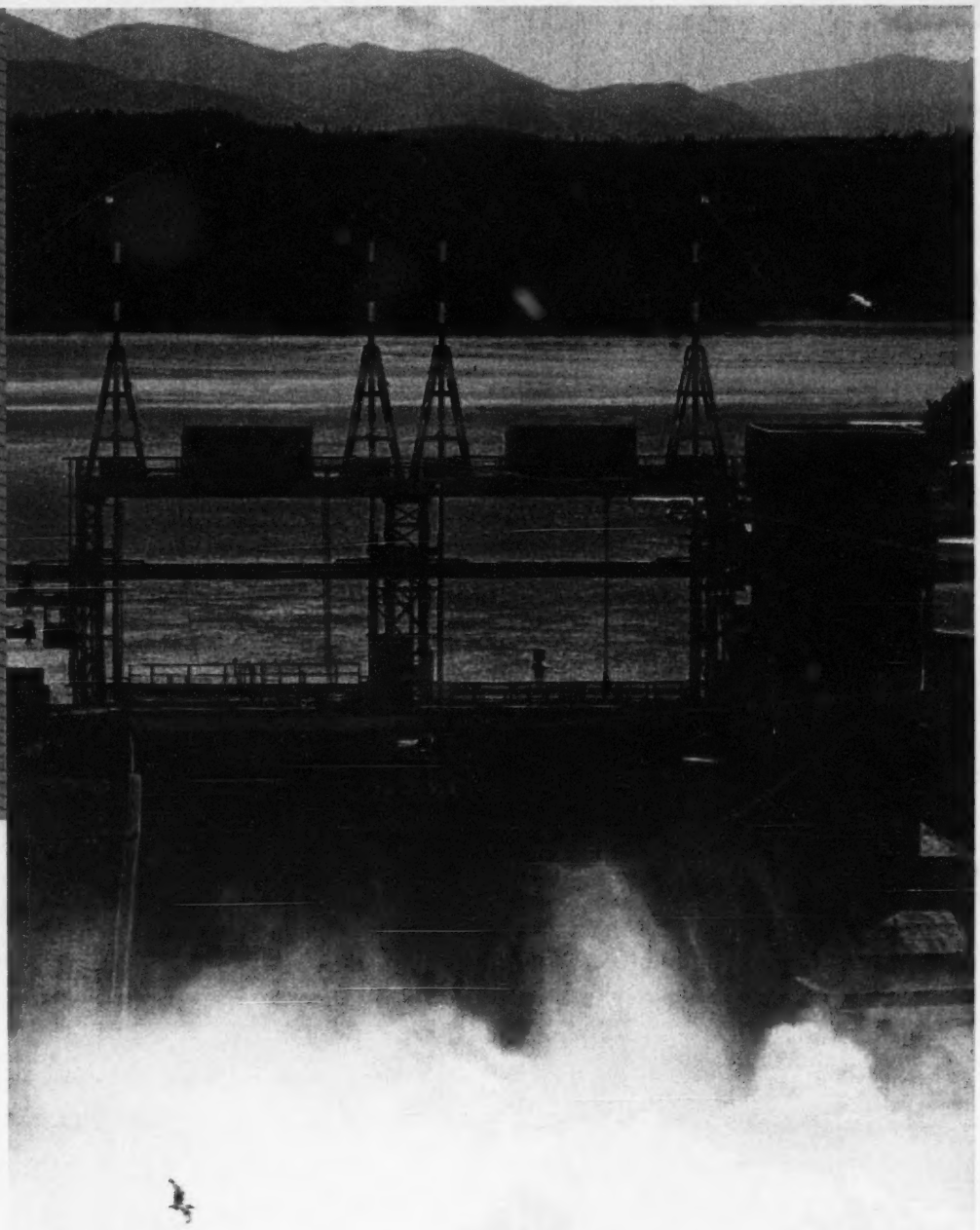
YUKON ENERGY TRANSMISSION AND GENERATION FACILITIES



YUKON ENERGY SYSTEM	(IN MW)
Hydro Facilities	
Whitehorse (WAF) *	40.0
Aishihik	30.0
Mayo	5.4
Total	75.4
Wind Facilities	
Haeckel Hill	0.8
Diesel Facilities	
Whitehorse (WAF)	25.0
Faro (WAF)	5.4
Dawson	6.0
Mayo	2.0
Total	38.4
Total Yukon Energy System	**114.6**

YECL SYSTEM	(IN MW)
Hydro Facilities	
Fish Lake	1.3
Diesel Facilities	
Carmacks (WAF)	1.3
Haines Junction (WAF)	1.3
Teslin (WAF)	1.3
Ross River (WAF)	1.0
Watson Lake	5.0
Beaver Creek	0.9
Destruction Bay	0.9
Old Crow	0.7
Pelly Crossing	0.7
Stewart Crossing	0.3
Swift River	0.3
Total	13.7
Total YECL System	**15.0**
Total Yukon Capacity	**129.6**

*WAF: Whitehorse-Aishihik-Faro interconnected grid



Cover: Yukon Energy Powerline Technician Jack Weir (centre) teaches apprentices Dave Bourque and Calvin Kirkwood about safe work practices.

Back cover: The Whitehorse Rapids spillway.

PHOTOS: www.archbould.com

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